African mining sector set for strong growth in 2022

By Mark Buncombe

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With mining companies currently enjoying high prices, exceptional production performance, and robust supply chains, Standard Bank's mining team anticipates that the sector will continue showing resilience and growth, remaining financially sound in 2022.

Mark Buncombe, head of mining and metals at Standard Bank Group

Mines have made a significant contribution to the fiscus in the countries in which they operate, proving a stable source of foreign exchange, which translates into better balance of payments and currency stability. South Africa's unexpected windfall of an extra R182bn in tax collections was largely attributed to the mining sector.

These operations are using their strong financial position to repair balance sheets (industry net debt to EBITDA is at historically low levels), reward shareholders through dividends and buy-backs, decarbonise operations, contribute to communities and increase resilience.

Limited greenfield investment opportunities, as well as higher environmental and regulatory hurdles to start new mines, mean that focus has been directed towards improving operational efficiencies. The Standard Bank team expects to see increased mergers and acquisitions activity as companies continue to strive for efficiencies, relative value and repositioning towards commodities with exposure to the energy transition.

Social upliftment remains an important consideration for the industry, given the continent's inequality and developmental challenges, which have been exacerbated by the Covid-19 pandemic. Mining groups have leveraged their success with managing infectious diseases such as HIV-Aids, TB and Ebola to effectively curb the spread of Covid-19, both within their workforces and the communities in which they operate. This has the benefit of promoting their own long-term sustainability.

Global scramble for metals thrusts Africa into mining spotlight

Helen Reid and Clara Denina 9 May 2022

ESG gaining momentum

The mining industry's shift towards a greener, more sustainable and community-oriented business model continues to accelerate. The continued focus on climate change and on the wellbeing of local communities, particularly in light of the Covid-19 pandemic, has meant that many mining companies are responding by accelerating the reduction of carbon emissions and addressing social issues.

With the industry now acutely aware of the need to operate sustainably, Standard Bank has seen a significant rise in interest in sustainable finance products, which are used to fund improvements in a firm's ESG performance.

Mining companies' strong financial performance has also accelerated their decarbonisation initiatives. The industry is leading the move to renewable decentralised power to secure supply and gain control of costs. Standard Bank is currently assessing 2,500MW worth of renewable energy projects in the mining sector, with an improving regulatory environment translating into more favourable funding terms for these projects. This has the added benefit of negating the risk of stranded assets and helping to position companies for long-term growth.

The adoption of new energy sources used in extraction and production, such as hydrogen and solar, is also gaining momentum. The deep investments in cleaner technologies often result in efficiency gains, which is good for business. Furthermore, premiums are paid for commodities with lower carbon footprints.

South Africa has an incredible renewable energy endowment and has, alongside Namibia, become a focal point for the development of green hydrogen projects to produce export products like green ammonia and decarbonised fuels. Interest in these projects has been generated in Europe and the East, along with our complementary platinum group metals (PGMs) that are used in electrolysis and fuel cell technology – South Africa is well placed to benefit.

Companies like Anglo Platinum are leading the establishment of a green hydrogen economy on one of their mines that is planned to run hydrogen fuel cell heavy trucks and contribute significantly to attaining its ESG goals. Battery-powered mining equipment is also gradually gaining in market share in the industry as the OEMs are investing to enhance its performance and price.

Mining companies are also spending significant resources to better manage scarce water resources by improving water usage and tailings dam management to reduce their environmental impact. In addition, the fourth industrial revolution is resulting in technology investments that are improving safety, engineering advances, productivity and efficiencies through automation and digitisation.

A world first, Anglo American launches 2MW nuGen hydrogen-powered haul truck
Sindy Peters 9 May 2022

Supporting the energy transition

Mines are expected to continue adding future-ready energy transition minerals to their portfolios. The rise of electric vehicles, driven by consumer preferences for more environmentally friendly products, is boosting demand for minerals used in batteries and electric motors, such as lithium, nickel, copper, cobalt, manganese and vanadium.

PGMs and rare earth minerals are also expected to benefit, with the growing hydrogen economy providing an additional boost. The platinum industry, which is already involved in producing commodities important to the energy transition, is diversifying its portfolio to include battery minerals.

As the industry positions itself for this shift, it will play an important role in the transition to a more sustainable global economy. With 70% to 80% of the world's available PGM resources sitting in South Africa's 'Bushveld Complex' and in Zimbabwe, Southern Africa will have a massive role to play in the decarbonisation of mining and the global economy.

Other African countries look set to benefit from this global drive. The Democratic Republic of Congo (DRC) is a dominant world supplier of cobalt, while Zambia and the DRC are the dominant world suppliers of copper (with notable recent investments in the DRC). There is also growing interest in lithium resources in Zimbabwe, as well as graphite investments in Tanzania and Mozambique.

Anglo American to return to Zambia with Arc Minerals copper deal
Helen Reid 13 May 2022

Supply chain disruptions

The mining sector has shown incredible resilience in route to market for their products, despite the global dislocation to supply chains as a result of the pandemic. However, there have been disruptions to the supply of key inputs such as explosives, steel, and reagents. Despite these challenges, productivity has remained strong, supported by high commodity prices.

African mines have also benefitted from Chinese downstream refineries and manufacturers remaining incentivised to invest in the upstream mining assets aiming for higher margins and more security of the offtakes.

There is an availability of equity cash in the industry, combined with a policy environment that is much more favourably disposed to public-private partnerships that South Africa will need to establish if it is to benefit from the cyclical upturn in bulks. This is not only likely to see an increase in production but will also see new investment in South Africa’s bulk export infrastructure. For example, Standard Bank sees potential for public-private partnerships to improve rail logistics in South Africa, which is likely to drive capital formation, jobs and growth beyond the mining sector.

The pandemic has also caused an imported skills shortage in the sector, particularly from Australia, which faced stringent lockdowns. However, a surprising impact of this shortage is the further acceleration of local skills transfer to improve resilience going forward.

Price risk management returns to industry

Standard Bank has noticed that increased currency and commodity price volatility has resulted in increased price risk management activity by clients. High commodity prices are increasingly being locked in by clients to support their capital projects and stabilise high returns for shareholders. Furthermore, the rising interest rate environment is encouraging clients to fix rates.

A positive spin-off has been seen in some jurisdictions where weaker currencies have resulted in improved competitiveness in the industry as companies in these countries move down the cost curve.

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Wendell Roelf and Promit Mukherjee 11 May 2022

China accelerates mining investment in Africa

Africa is seeing increased Chinese mining activity on the continent. Rising geopolitical tension is driving the diversification of China’s commodity investment and trade flow from developed markets to emerging markets, including Africa. In 2021, China’s total outbound foreign direct investment (FDI) increased to $145.2bn, representing 9.2% year-on-year growth.

At least a quarter of China’s FDI into Africa is directed towards the mining and metals sector with an increasing investment appetite focused on specific commodities in different jurisdictions.

This includes significant demand by Chinese companies for copper and cobalt exports out of Zambia and the DRC. The total Chinese acquisition of lithium from Zimbabwe, DRC and Mali has now risen to $1bn since 2021, and gold from South Africa and Ghana focused on the medium-sized targets shows encouraging upsize potentials.

In Namibia, Chinese investors operate the only two large uranium mines in the country to secure raw feeds for Chinese nuclear energy initiatives, and there is also significant investor and operator appetite for chrome assets in South Africa and

Zimbabwe, as well as manganese assets in Ghana.

Given more favourable legislation in a number of African jurisdictions, sustained Chinese interest in the continent, booming commodity prices, the improved balance sheets of many African miners, an increased global appetite for bulks and the broader range of ecosystem-financing options available to miners, Standard Bank remains optimistic that Africa's mining sector offers real opportunity for expansion in 2022.

ABOUT THE AUTHOR

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