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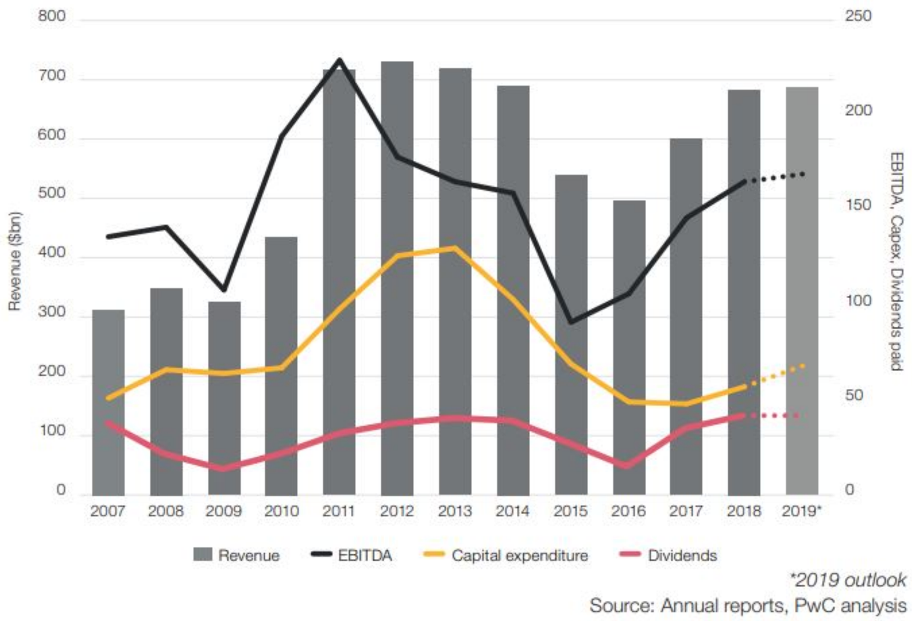
Mining industry continues to grow but the heat is on: PwC Mine report 2019

Things are looking good for the world's top miners as per PwC's annual review of global trends in the mining industry, as represented by the Top 40 mining companies by market capitalisation.

In 2018, the world's 40 largest miners consolidated the stellar performance of 2017.

As a group, they increased production, boosted cash flow, paid down debt, and provided returns to shareholders at near record highs.



Top 40 mining companies performance trends ($bn)

Yet investors seemed unimpressed, at least judging by market returns and valuations. What accounts for this discrepancy?

Following is an extract from PwC's annual review of global trends in the mining industry:

Steady but the heat is on

The Top 40 continued to see steady growth in revenue and profitability, as predicted in our forecast last year.

Dividends to shareholders are at an all-time high and balance sheets are strong.

Share Information

Code: .
Listing: ASX
Sector: **Media**
Website:

Company Synopsis:
Proactive Investors is a global leader in financial news, media, research and events focusing on emerging growth companies across four continents.

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Capital expenditure showed an increase for the first time in five years, albeit still below 2008 pre-boom levels.

Trade wars, geopolitical crises and climate change continue to create industry volatility.

This uncertainty was particularly evident at the end of December 2018, when commodity prices and emerging economy exchange rates decreased substantially.

One thing is clear - mining requires far more than good financial performance to continue to create and realise value in a sustainable manner.

We believe the under-performance is connected with the risk and uncertainties of a changing world and the market perception about the mining industry's ability to respond.

The future success of the mining industry will not only depend on its ability to adapt but also its ability and willingness to sell its brand as the primary provider of raw materials to many essential industries and products that humans rely on everyday, whether it be the ten metals and minerals - including gold, silver, aluminium and nickel - that can be found in their cell phone, the lithium in the battery of their electric vehicle, the steel from iron ore in their cooking pot or the coal fuelling their electric lights.

A chance to fix 'brand mining'

With strong balance sheets and cash flows, now is the time for the Top 40 to address the issues weighing down market valuations.

Climate change, technology and changing consumer sentiment are among the defining business challenges of our age.

To restore faith in 'brand mining', leading miners need to prove they are keeping up with the pace of change.

As an industry, this means transforming their reputation as efficient 'converters of dirt' to prominent builders of both economic and societal capital.

Prioritising green and customer-centric strategies, enabled by technology, will help earn the trust of stakeholders and enable miners to create sustainable value into the future

Action and words needed on carbon

As producers of fossil fuels and high users of energy, miners are squarely in the public eye on the issue of carbon emissions.

Any misstep results in significant reputation risk and impacts the entire industry's social licence to operate.

Mining must, therefore, be among the quickest to respond to the changing landscape.

While Top 40 miners are performing strongly in terms of sustainability reporting, stakeholders have made it clear that disclosure is not enough.

Direct, measurable and visible progress is required for trust to be regained and maintained.

Miners have already done a lot to improve internal efficiencies for the reduction in groundwater consumption and other environmental impacts.

Most of the Top 40 have also targeted a further reduction in greenhouse gas emissions between 3% and 5% by 2020.

Accelerate and widen technology adoption

Technology is becoming a critical differentiator for the world's leading miners.

Automation and digitisation continue to gain momentum, as companies are focused on harnessing technology to reduce the cost of maintenance and extraction.

But compared with many other industries, mining's level of technological maturity is still relatively low.

Consumers need mining: engage with them

Mining supplies many of the raw materials behind the technology and products that consumers love.

And, like other sectors, mining is responding to consumer concerns around the sustainability of these goods.

For example, Rio Tinto and Alcoa formed a new venture with Apple to create the world's first carbon-free aluminium smelting process.

RCS Global has partnered with a number of organisations to use blockchain technology to trace and validate ethically sourced cobalt, which is in high demand for use in lithium-ion batteries for electric motor vehicles.

Notable takeaways from this year's Top 40:

• Four new entrants: in gold, Kirkland Lake Gold Ltd, AngloGold Ashanti Limited and Polymetal International plc and coal company PT Bayan Resources Tbk. They replaced PotashCorp (now part of Nutrien where mining is a small part of their business), Randgold Resources (now merged with Barrick Gold Corporation), National Mineral Development Corporation and KAZ Minerals.

• The dominance of Top 40 gold companies increased to ten companies this year, coal companies increased to six and diversified companies still accounted for 13.

• Two key movers in 2018 were The Mosaic Company, which moved up 11 spots to 17 and Fresnillo which moved down ten places to 28.

• The top five companies make up 50% of total Top 40 market capitalisation.

2019 outlook starts showing pressure on margins

Income statement

$bn	2019 Outlook	2018	2017	Change (%)
Revenue	686	683	632	8%
Operating expenses	(511)	(505)	(465)	9%
Other operating expenses	(6)	(13)	(9)	44%
EBITDA	169	165	158	4%
Impairment charges	(4)	(12)	(3)	300%
Depreciation and amortisation	(46)	(47)	(47)	0%
Net finance cost	(10)	(13)	(13)	0%
PBT	109	93	95	(2%)
Income tax expense	(33)	(27)	(30)	(10%)
Net profit	**76**	**66**	**65**	**2%**

**2019 is our outlook*
Source: Annual reports, PwC analysis

Our 2019 outlook assumes flat revenue as marginally increased production and higher average iron ore prices are offset by weaker coal and copper prices.

We expect operating costs to rise because of inflationary pressures on input costs. The expected outcome for margins will be largely in line with the current year.