Sibanye's new gold rush

Sibanye-Stillwater has been approached by buyers interested in its Beatrix West and Cooke operations, which it is planning to put on care and maintenance with a potential loss of 7,400 jobs. But Sibanye-Stillwater is not a seller, CEO Neal Froneman said last week. "We still see value in [the businesses] at a different gold and uranium price," he said. "We know what they are worth."

Neal Froneman, CEO of Sibanye-Stillwater. Photo: BizNiz Africa

Froneman - as those who have tracked his career in the past decade will know - would rather acquire businesses than sell them. The latest acquisition, Sibanye's purchase of US platinum group metals (PGM) producer Stillwater, follows a series of deals that include Rustenburg and Aquarius platinum mines and Cooke and Burnstone gold mines in SA.

Froneman would like to acquire more gold assets.

As CEO of Uranium One in the late 2000s, he built a portfolio of uranium mines in SA, Australia, Kazakhstan and the US in an international company listed in Toronto and Johannesburg. After his departure, the company was delisted and the assets sold off.

As CEO of Gold One, Froneman developed the Modder East mine and acquired some of the unloved deep-gold resources on the East Rand before the company was sold to a Chinese consortium and delisted.

Froneman's initial strategy at Sibanye, whose first assets were gold mines spun out of Gold Fields (Kloof, Driefontein and Beatrix), was to buy ageing mines from corporates with bigger overheads. Sibanye, with a small, focused management team, would cut overhead costs, focus on extracting the remaining viable gold at the best possible margin for the mines' last few years, and maximise dividends to shareholders before closing them.

Cooke and Rustenburg are ageing assets, Burnstone is a new mine that needed a redesign, Aquarius was a well-managed organisation with limited resources, and Stillwater has growth projects but has struggled to reorganise and make a profit for the past few years.

But as Sibanye grows, it runs the risk of having ballooning corporate overheads like most conglomerates.

At last week's presentation of interim results, Froneman emphasised that the recent reorganisation - dividing operations into a US region and an SA one, each with its own executives - is designed to ensure that management is close to the businesses.

These regional headquarters consist of only a few people reporting to a CEO and corporate office that focus on strategy and investor relations.

Nedbank analyst Leon Esterhuizen says rising overhead costs are not an issue for Sibanye now. The company needs to make acquisitions because its SA gold mines have a short life and if it stands still it will go nowhere. It has to move offshore, given regulatory uncertainties in SA, and local management is needed for operations in a different time zone.

Sibanye's interim results show a sharp increase in interest costs, but debt servicing is not a problem as long as its assets deliver a return above the cost of debt. At present, the picture is mixed: palladium and gold prices are firmer but platinum is flat and the rand's strength is negative for SA miners.

The US2.6bn Stillwater acquisition was financed partly by a rights issue and partly by a dollar bond, with $361m remaining to be financed through equity or debt. It means that at the end of June Sibanye had a staggering net debt of R22.1bn - about half its current market capitalisation - and that it will pay about 100m-120m of interest a year.

The ratio of net debt to earnings before interest, tax, depreciation and amortisation is expected to decline gradually, from a peak of 3:1 at the end of 2017 to about 1:1 in 2021. If the rand weakens against the dollar, the improvement will be more rapid, CFO Charl Keyter said at the presentation.

Froneman says the Stillwater deal is "transformative". It makes Sibanye one of the world's top five PGM producers and one of its top 10 gold producers. Stillwater has near-term growth from its Blitz project development area, which should be delivering about 300,000oz of PGM by late 2021 or early 2022. It has already spent 145m of the capital of $260m on this project.

He says the acquisition gives Sibanye-Stillwater, at 45% platinum and 48% palladium, a more favourable mix of the two metals than its peer group, which is an advantage, given palladium's recent surge to 16-year highs.

Esterhuizen says Stillwater's palladium weighting is a risk, given the high price paid for the asset and the metal's recent highs to almost the same price as platinum. Palladium has only once in history been more expensive than platinum, and if that happens again, there will be a switch back to platinum, which will bring the palladium price down again.

The premium Sibanye paid partly reflected Stillwater's growth projects but also the strategic necessity for Sibanye to get away from the cloud hanging over the SA mining industry and provide a long-term sustainable future for the company. From that perspective it was a "fabulous" deal, Esterhuizen says, and one that Sibanye's current shareholders have supported.

Makwe Masilela, a director at BP Bernstein, says Froneman is acquiring platinum assets at the right time in the cycle, unlike other mining companies in the past, such as Anglo American, which bought them at the top. The platinum sector is expected to turn around and Froneman's target of 50% revenue from gold and 50% from platinum should prove wise.

Masilela does not believe the Stillwater deal was overpriced, though he says he might call it costly. With this deal, Froneman has demonstrated that he understands not only the local mining industry, but the international scene as well.

Froneman's presentation showed that Rustenburg Platinum mines, bought from Anglo American Platinum, are overdelivering on projections in their first few months, which might suggest the bar was set too low.

Froneman says Sibanye's team exceeded its own estimates of savings from Rustenburg. Production was above forecast and total cash costs fell 14% in the first eight months under Sibanye's management, while R550m in annualised synergies were realised, well ahead of the initial estimate of R800m within three years. This target has been revised to an annual R1bn.

When it bought Rustenburg Sibanye indicated that operations might need to be restructured, which would affect jobs. Froneman says a decision will be made in the next few months, but at this point the benefits that are being realised from the integration could make retrenchments unnecessary.

He says the only thing Sibanye underestimated at Rustenburg was community issues.

Robert van Niekerk, the executive vice-president of the Southern Africa region, doesn't believe Sibanye's estimates of savings at Rustenburg were too conservative. "The team did well," he says.

Overheads were cut to suit the production profile. All shafts were already producing at maximum capacity, though volumes at Bathopele shaft were increased by 3%-5%.

Van Niekerk says that at current palladium prices there is an opportunity to increase the development of UG2, a PGM reef that contains more palladium than the Merensky Reef.

Esterhuizen says the Rustenburg deal was very cleverly structured, with payments over several years and Anglo Platinum assuming some of the downside risk. But for it to work, it needs PGM prices to increase, and any gains in the prices are now being offset by the strong rand. Despite the cost savings, these mines are not generating much free cash flow at present.

Sibanye-Stillwater shares, at R20.92,have added about 24% in the past month but still remain below the prerights offer price of about R2

Source: *Financial Mail*