Mining funding in a new economic reality - post Covid-19

By Mametja Moshe

7 Apr 2020

Both commodity prices and investment in South African mining will no doubt be impacted by measures taken to curb the spread of Covid-19 and the anticipated economic fallout. Local mining operations have been limited to care and maintenance activities only and anticipated mine closures will have an adverse impact on production, which would affect commodity prices. The recent credit rating downgrade by international rating agency Moody's further dampens economic outlook for South African businesses.

Mametja Moshe

Funding mechanisms

Our mining industry will seek further investment after Covid-19 is conquered, with a view to attaining economic recovery. The standard toolbox of funding mechanisms is always a good starting point, with the caveat that companies will need to be more innovative about how funding can be raised.

Public bourses have experienced a bloodbath and are still difficult places to source any funding. Does this mean that mines can’t raise funding in this environment? We don’t believe so, and Sasol’s recent announcement of a $2bn rights offer supports this. That said, raising public equity funding will be more difficult in the coming year as investors go after “safer” assets, including resilient investments and jurisdictions. Rights offers may be attractive as they would not adversely dilute existing shareholders.

Development finance institutions are going to be critical in this period. The Industrial Development Corporation has taken the lead, with President Cyril Ramaphosa announcing a R3bn investment in SMEs. A similar view might need to be taken to invest in mining operations by developmental finance institutions, whose investment criteria lean towards retention and creation of jobs, economic and social development and sustainability goals. Mines that want to access this funding will need to ensure that these criteria are met and weigh this against potential profitability and sustainability goals for their businesses.

Streaming transactions – in recent times, traders have been funding mining companies on the back of their production. This method is becoming popular as it is seen as a win-win solution in the current crisis - miners need capital, and traders are then able to enjoy the upside in commodity prices.

Internal resources – as we know, cash is king. Several companies across the globe, including Gold Fields, have announced that they can withstand the impact of the Covid-19 using internal resources and existing lines of credit.

Can we find more innovation for funding mining companies?

Mines should seek out pockets of cash earmarked for mining businesses. For example, we are a shareholder in Mining Minerals & Metals plc, a special purpose acquisition company listed on the London Stock Exchange, which seeks to acquire businesses in natural resources exploration. Existing cash shells could provide an attractive cushion, particularly for exploration companies and junior miners.

Internal sources of funding may include the disposal of non-core assets, but it is imperative to attract interest from the right acquirers if this is an appropriate course of action. In the past, we have identified and highlighted attractive cost or revenue synergies for potential investors, which has led to the successful disposal of non-core assets. These include combining contiguous mines which could increase life of mine; disposal of assets to benefit neighbouring mines from existing infrastructure; and disposals of plant and equipment - likely from our neighbouring countries such as Zimbabwe, Botswana and Namibia as they launch low-cost projects.

Clearly there is no catch-all solution in a tough market. However, miners will need us to all come together as advisors, funders, investors, government and other stakeholders to find innovative, unique investment solutions that contribute to inclusive prosperity. Perhaps this is what the Covid-19 pandemic is teaching us – to work together to find inclusive solutions as a united industry.

ABOUT THE AUTHOR

Mametja Moshe is the founder and CEO of Moshe Capital.