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It's wait and see for Anglo's SA assets

Miner sits tight as industry grapples with regulations and final mining charter

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Anglo American CEO Mark Cutifani says business is improving despite the difficulty in getting South Africa's leadership to engage with the mining industry. Picture: Getty Images

● Anglo American CEO Mark Cutifani said the group would decide next year on what to do with its South African coal, manganese and iron ore assets, which 18 months ago were on the table to be axed.

Anglo American has 25% of its asset base in South Africa and the country contributed 7% to its revenue in its 2016 annual report, according to Bloomberg data.

Cutifani said Anglo would look at its South African position and speak to the government and other stakeholders about possibly consolidating some assets.

"To be really frank, it's been really hard to get everyone [South Africa's leadership] to engage," Cutifani said, "but we continue to improve the business so we are very pleased with where we are."

He added that the third mining charter just did not work for anyone and that the industry and the government needed to go back to the negotiating table.

Urgent application

Earlier this week the Chamber of Mines lodged another urgent application with the Pretoria High Court after Minister of Mineral Resources Mosebenzi Zwane last week proposed in the Government Gazette restrictions on the granting of new mineral rights, which could result in a freeze in mining transactions. This means there are three legal cases against the minister and the Department of Mineral Resources so far.

In February Anglo made a U-turn on its strategic decision to sell its South African coal, manganese and iron ore businesses due to the upturn in bulk and base commodity prices, which resulted in Anglo's 2017 interim results for the six months ended June 30 being positive.

The company's underlying earnings before interest, tax, depreciation and amortisation (ebitda) increased 68% to $4.1-billion, while its operating profit was $2.6-billion compared to a loss of $34-million in the same period last year.

Demand from China

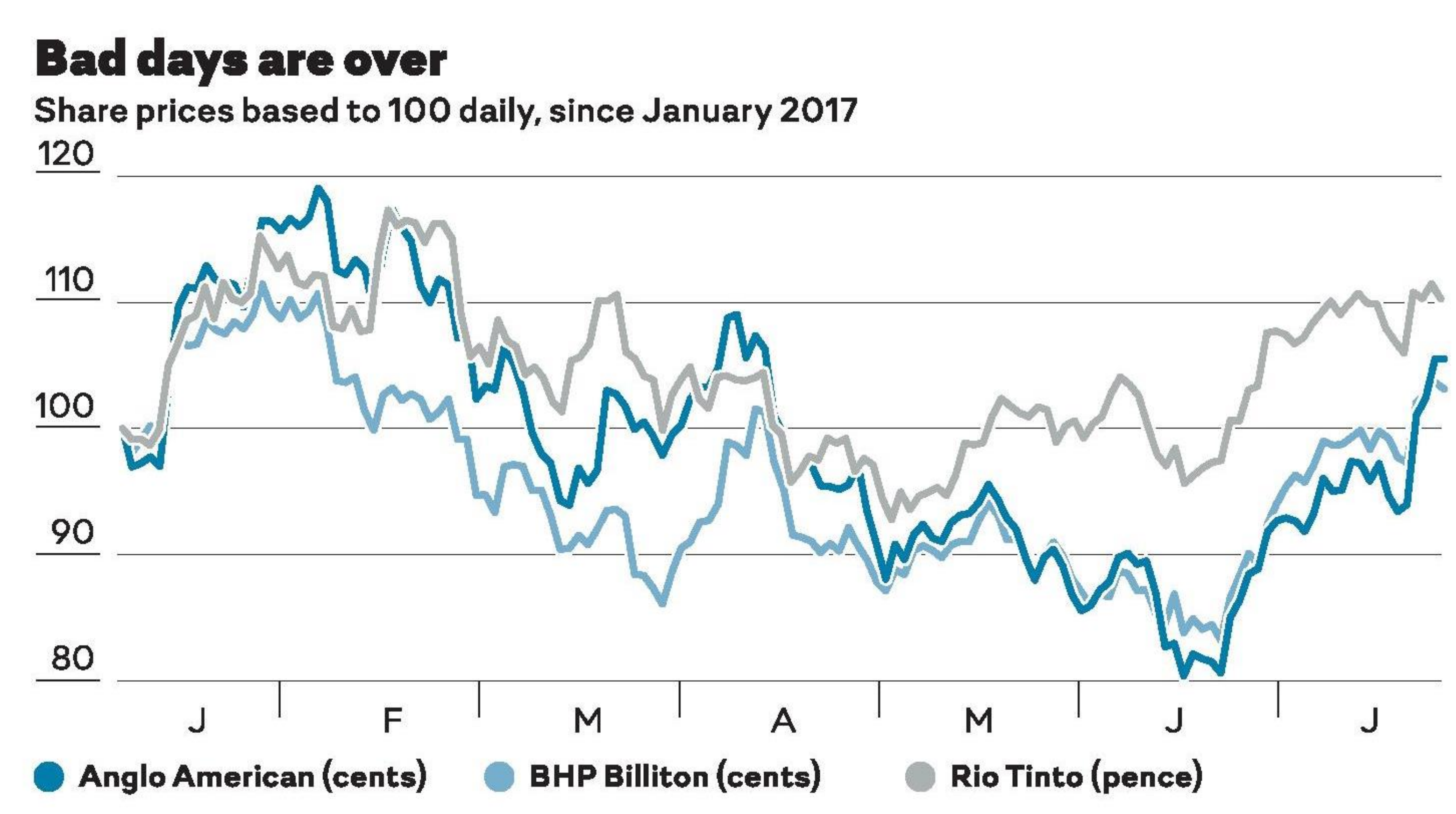
In 2015 a slowdown in demand from China sparked a commodities downturn, presenting a challenge to the company's strategy, leadership and operations.

It was a year of panic for many mining companies, and Anglo American was not immune. The company was then forced to halt its dividend payout, its debt levels were up to $12.5-billion and it was running about 68 assets — most of which were loss-making.

Cutifani said on Thursday the company was done with the sale of its assets at the moment and was happy with the 37 assets the company had in its portfolio.

"We are more than happy to continue operating the assets to continue improving them and making a contribution to South Africa. At this point we are very happy to operate and continue to run the business," he said.

Peter Major, a mining analyst at Cadiz Corporate Solutions, said he was reminded of the panic in 2015 when he saw Anglo's 2017 interim results to end-June this week. "These results show that the company has great assets," he said.



The improved operational performance comes after the company cut its debt well below the targeted $7-billion for the end of the 2017 financial year to $6.2-billion. And, most importantly for shareholders, Anglo has resumed paying dividends, with a payout of 40% of its first-half underlying earnings.

Difficult decision

Major said the dividend gave the message that they were no longer panicking. He said it was funny that iron ore, coal and manganese now made up two-thirds of Anglo's money (cash flows) and yet it had wanted to get rid of them 18 months ago.

Izak van Niekerk, an analyst at Mergence Investment Managers, said the charter was making it difficult for Anglo to make decisions about its South African assets even though they were making money and Anglo had said that if they had good returns, it would keep them.

"If all else fails and the dividend is not sustainable for some reason, the company can still go back and say, 'oops' just like they did with Kumba iron ore when the company started generating cash," said another analyst, who did not want to be named.

Kumba, in which Anglo has a 79.8% stake, also resumed dividends with a R15.98 dividend per share for the six months to end-June.

The analyst said because some aspects of the charter were problematic mining bosses would continue to use it as an excuse to leave South Africa if their businesses were not doing well.

But Setendra Naidoo, an analyst at Capricorn Fund Managers, said any decision to sell further assets would come down to profitability and not a threat from the Mining Charter because the company understands the volatility of iron ore and coal prices.

Naidoo said the timing was right to pay out a dividend.

"Because prices are so volatile, when you are making returns, return it to shareholders and if times are tough, buckle down and withhold your dividend," he said.

Withholding dividends

Amplats, the company's platinum miner, which is the largest in the world, was withholding dividends due to the tough platinum environment and weak platinum group metal prices.

About 70% of the platinum industry is loss-making at the moment and Amplats reported a loss of R1.3-billion in the six months to end-June. However, Naidoo said because Amplats was below the cost curve, unlike other platinum miners, it was better positioned to weather the storm.

Anglo American's share price climbed 12.4% this week, up 185.9% since it suspended dividends in 2015.

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>
> **Mark Cutifani**
> Anglo American CEO

Anglo: R1.3bn for silicosis

● Anglo American has set aside $101-million (about R1.3-billion) to cover potential damages for former South African staff who contracted the fatal lung disease silicosis at work, it said on Thursday.

The news came after the High Court in Johannesburg ruled in May that former and current mineworkers, employed by South Africa's main gold mining companies since 1965, may proceed with a class action against those groups.

The court decision cleared the way for up to half a million workers to sue for damages resulting from silicosis — a respiratory condition developed from breathing in fine silica dust in mines.

"We have made an accounting provision within our half-year results this morning, acknowledging the progress that is being made towards an agreement as part of the working group of companies in the silicosis litigation in South Africa," said an Anglo American spokesman. "This figure is an estimate at this stage and we will see where the negotiations land in the months ahead."

The mineworkers accuse 30 subsidiaries of seven companies — including African Rainbow Minerals, AngloGold Ashanti, Harmony Gold, Gold Fields and Sibanye Gold — of knowingly failing to protect workers against the disease that inflames and scars the lungs.

In a separate statement on Thursday Gold Fields said it had set aside $30-million for the class action lawsuit. — AFP