

SA mining's financial situation is improving despite challenges

By [Michal Kotzé](#)

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The 2017 financial year was another challenging one for stakeholders in the mining industry. Investors saw a decrease in dividends and market capitalisation; decreases in precious metal and prices have put significant pressure on conventional deep-level platinum and gold mines' profitability and sustainability; tax authorities only saw marginal increases in taxes paid; and employees experienced further retrenchments with the prospect of more to come.



Photo: PwC

Recovery

However, the negative environment has been offset by an excellent recovery in the prices of coal, iron ore, manganese and chrome over the last 18 months.

These are some of the key highlights from PwC's ninth edition of *SA Mine*, a series of publications that highlights trends in the South African mining industry.

Despite an overall improvement in financial performance, regulatory announcements in June 2017 resulted in market capitalisation dropping to June 2015 levels. The market capitalisation of the 29 companies analysed in this report

decreased to R420bn, a 25% decline from R560bn as at 30 June 2016. The subsequent recovery to the end of August was aided by improved dollar prices and on the hope that there would be an amicable solution between the industry and the regulator on the Mining Charter.

Coal maintained its position as the leading South African mining commodity revenue generator, increasing total revenue to R119bn from the prior year's R105bn. Manganese, iron ore and chrome are the only commodities that showed real production growth over the last 10 years.

The austerity measures regarding shareholder distributions, capital expenditure and a focus on cost containment, aided by the improved price, as well as various debt restructurings, resulted in an improved financial position for the industry. Revenue increased by 13% (R43bn) from the prior year. This is the first significant increase in more than five years.

Safety

Safety is probably one of the biggest success stories in the South African mining industry over the last 20 years. Statistics provided by the department of Mineral Resources show a downward trend in fatalities for the industry over the past 10 years, indicating that improvements made in safety initiatives by both companies and the DMR are delivering positive results.

Technology

SA's top mining companies are also looking towards innovative technology, alternative sources of capital, as well as standardised processes and systems to improve project delivery, in their efforts to mine and improve safety conditions in the industry. Numerous emerging technologies are on the radar of mining companies or been piloted as part of their digital transformation roadmap.

The mining industry continues to add significant value to South Africa. The total value created by the entities analysed increased by 12%, from R161bn to R180bn.

The challenge currently faced is determining how to increase the size of the pie to create more value for all stakeholders in an environment of ever-increasing costs, reducing margins and increased volatility. Creating an environment with adequate infrastructure, less policy and regulatory uncertainty, and a skilled, yet flexible workforce should go a long way towards attracting investment and benefitting all stakeholders. Increasingly, many advanced companies are recognising that engagement with stakeholders is improving business performance and sustainability.

ABOUT THE AUTHOR

Mchal Kotzé is PwCAfrica's energy utilities & resources lead.

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