

Charter is undermining industry performance

By  Danette Breitenbach

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For the past five to six years, the mining industry has been in survival mode, recording a loss last year for the first time in a decade. But, the sector remains important to the country - contributing more than 6% to GDP. Mining also brings in a substantial amount of export revenue and employs more than 460,000 people.



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Despite the industry returning to profitability again this year, it faces several risks, not the least of which is regulatory uncertainty. This is a finding of *SA Mine*, PwC's ninth edition of the report, which was recently released.

Impact of the Mining Charter

One of the items we looked at was the market capitalisation for the mining industry, explains Sizwe Masondo - director and PwC mining assurance partner. "We compared that to the performance of the JSE All Share Index. Over time we have seen the prices start to increase and we've started to see the gap [between the two] narrow. The big concern, when you look at the local industry is the gap that developed."

That, he adds, is purely due to the Mining Charter. "When we heard the rumblings about the new charter coming out and the court challenges and so forth we did see market caps for the mining entities decrease."

The report compares the HSBC global mining index to the SA JSE mining index. "The point we wanted to make there is that when you look at the local industry and compare it to the global industry, there are gaps. "It cannot be denied that politics impacts on the mining industry and over time the gap has narrowed but it increased again and that is because of the Mining Charter," he says.

He believes the gap is narrowing again.

"The stand-off between the mining industry and government on the Mining Charter has certainly harmed the industry and we see that in the market capitalisation of these mining entities," says Andries Rossouw, mining assurance partner and project leader, PwC.

Meeting business objectives

While this year's improvement is on the back of improved prices, volatility in commodity prices and the exchange rate makes it very difficult for mining companies to plan appropriately and plan long term, he adds.

Masondo concurs. "My expectation, obviously, is volatility in prices would be right at the top in terms of the risk and then uncertainly. With the issues surrounding the Mining Charter, I'd expect that risk to be quite high in comparison to previous years."

Apart from regulatory uncertainty, a key risk that mining companies focus on is labour relations. Other risks include volatility commodity prices and foreign exchange fluctuations.

Meeting business plans is another big focus, especially considering that mining companies have had to preserve as much cash as possible so there's been quite a lot of focus on costs. "This has led to mining companies cutting out unnecessary costs. In some instances, they have had to look at exploration costs and try to reduce that as well to preserve cash. Liquidity and capital management go hand in hand with that," says Masondo.

PwC views the socio-economic environment around mining companies as a real risk. "We see mining companies being closed down by communities rather than actual employees and that's very harmful to mining in the long run," says Rossouw.

Climate change and cyber security

Among some of the emerging risks picked up in this report is the issue of climate change. "It is undeniable that we're seeing the impact of climate change and its impact on mining companies and how they conduct their business," says Masondo.

The other emerging risk new to the industry is cyber security. "This one is not particular to the mining industry - it is across all industries. There is quite a lot of focus that is going into cyber security and how companies protect their information and prevent cyber-attacks," Masondo adds.

Safety and health of employees remains a very strong focus point although over the past couple of years this is an area where the industry has had a lot of success.

ABOUT DANETTE BREITENBACH

Danette Breitenbach is a marketing & media editor at Bizcommunity.com. Previously she freelanced in the marketing and media sector, including for Bizcommunity. She was editor and publisher of AdVantage, the publication that served the marketing, media and advertising industry in southern Africa. She has worked extensively in print media, mainly B2B. She has a Masters in Financial Journalism from Wits.

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