SA Mine 2024

Beyond mining

October 2024
16th edition

www.pwc.co.za/mining

Contents

Executive summary

It's been a challenging year for South Africa's mining industry. Commodity prices, with the exception of gold have been under pressure, causing a significant drop in both revenue and profits. Mining industry headlines have been dominated by retrenchments, falling stock prices, restructuring for efficiency and efforts to become more fit for purpose. Mining companies have had to look beyond mining to survive the downturn, position themselves for the future and evolve with the changing regulatory and social landscape.

The commodity price downturn has again emphasised the importance of strong financial positions. A strong balance sheet provides for opportunistic transactions and options in sourcing capital, which is critical for a cyclical industry. There are numerous capital sourcing options, but one of the trends we have noted is that mining companies are increasingly using green and sustainability loans to support operations which align with their own and global sustainability goals.

In 2024, the South African mining sector saw a significant increase in deal values. The increase in deal values aligns with global trends, driven by the quest for critical minerals essential for the energy transition. In South Africa, the deal-critical mineral of focus was copper, whose price performed exceptionally in the current year. The second reason has consolidation and operational synergies and lastly diversification and strategic realignment.

Mining is key to the economy. Mining companies play a crucial role in the communities they operate in, not only as employers or as engines for the economies around them, but through the other services—such as clean water—that they provide to their communities. It is therefore crucial to start thinking and planning for a mining sector that is sustainable when operations close and that, where possible, uses available technologies to improve safety, productivity and efficiencies to extend the life of its mines.

Andries Rossouw
Africa Energy, Utilities & Resources Leader

Vuyiswa Khutlang
SA Mine project leader

Mergers and acquisitions & Market Performance

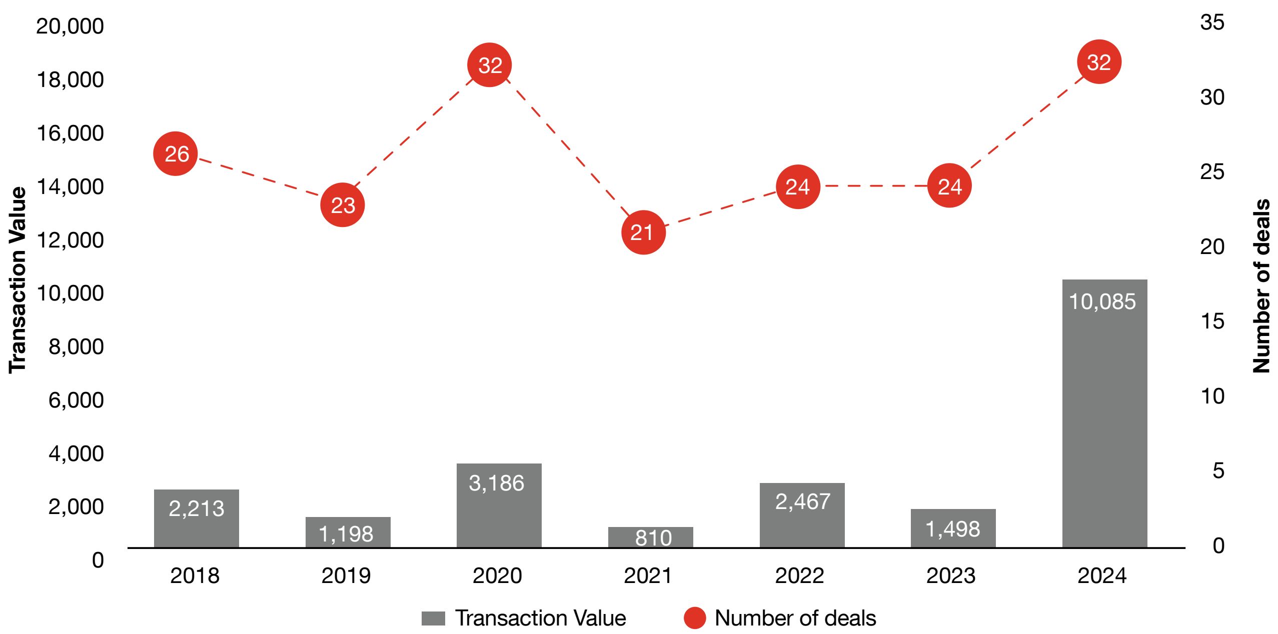
The quest for copper and the realignment of M&A objectives in South Africa‘s mining sector

The global pursuit of a just energy transition and the need for consolidation are reshaping the landscape of the South African mining industry.

The South African mining sector has experienced a hive of merger and acquisition (M&A) activity in the past year, driven by factors that have reshaped the industry‘s dynamics and outlook. The quest for copper and other strategic minerals, broader consolidation and operational synergies, and diversification and strategic realignment to create shareholder value have been the main themes emerging from M&A transactions.

The South African mining sector witnessed a deal value of c. $10bn across 32 deals in the 12 months ended 30 June 2024 (excluding Anglo American / BHP and undisclosed deals). The talk of the town for an extended period was the proposed takeover bid by BHP, the world‘s largest mining company, for Anglo American, valued at £38.6bn (c. $49.8bn), which BHP ultimately withdrew.

Figure 1: South African Announced (Disclosed) Mergers & Acquisitions Transactions (USD’m)



Source: S&P Capital IQ

Notes:

- The 2023 figures exclude Glencore’s proposed acquisition of Teck Resources’ coal assets.
- The 2024 figures exclude BHP’s Anglo American takeover bid and Anglo American’s subsequent restructuring plans as neither have been concluded.

The quest for copper and other strategic minerals

One of the most prominent drivers of M&A activity in the South African mining sector has been the quest for copper and other strategic minerals globally and on the continent. These minerals have become increasingly sought-after as the world transitions to a low-carbon economy and the demand for clean energy solutions surges.

Copper, in particular, has demonstrated robust performance over the past 12 months, reaching record-high prices and attracting major players to seek copper resources across the globe. Copper is a vital component of renewable energy technologies, such as wind turbines, solar panels, electric vehicles, and energy transmission and distribution infrastructure. According to the International Energy Agency (IEA), global copper demand could double by 2040 under a net zero emissions scenario.

As a result, copper has become the focal point of some of the most significant and contentious M&A deals in the SA mining sector. The most notable example is the takeover bid by BHP of Anglo American. The proposed transaction, which was initiated in April 2024 and rejected by Anglo American three times, was valued at £38.6bn (c. $49.8bn) and would have created a mining giant with a leading portfolio of high-quality assets in copper, potash, iron ore and metallurgical coal.[1]

According to BHP, the rationale for the bid was to capitalise on the synergies and growth opportunities of the combined business and enhance its exposure to copper and other strategic minerals. BHP also proposed that the transaction would be preceded by separate demergers by Anglo American of its entire shareholdings in Anglo American Platinum and Kumba Iron Ore to Anglo American shareholders as part of Anglo American‘s restructuring plans to streamline its business and focus on copper and iron ore.

However, Anglo American rejected the bid, arguing that it significantly undervalued the company and its prospects and was not in the best interests of its shareholders. Anglo American also emphasised its robust performance and pipeline of growth projects, as well as its commitment to its diversified portfolio and transition to a low-carbon economy. Anglo American indicated it was open to talks with BHP after rebuffing the third offer. However, BHP withdrew its bid after Anglo American declined to extend the firm offer deadline.[5]

The failed takeover bid by BHP illustrates the intense competition and strategic importance of copper in the global mining industry and the challenges and complexities of executing such large-scale, cross-border transactions. It also highlights the divergent views and approaches of the two mining giants regarding their portfolio optimisation and value creation strategies.

Other notable critical mineral-related transactions include:

- AngloGold Ashanti acquiring the Northern Junee-Narromine Belt project in Australia from Kincora Copper.[2]
- Copper 360 acquiring Nama Copper from Mazule Resources.
- Ganfeng Lithium, the China-based lithium compound manufacturing and processing company, acquiring 19.9% of South African Lithium.

Consolidation and operational synergies

Another key driver of M&A activity in the South African mining sector has been broader consolidation and operational synergies, as mining companies have sought to improve their efficiency, productivity and profitability amid a challenging economic climate, market dynamics and global geopolitical tensions. Mining companies have consolidated operations and increased exposure to joint ventures to achieve economies of scale, cost savings, and operational excellence.

One example of consolidation is the Impala take over transaction of RBPlats, its neighbour which was finalised in July 2023. The transaction allowed Impala to add to its production base in Rustenburg and to retain critical mass in the area. It will eventually allow for optimised processing infrastructure and other synergies.

Another example of consolidation and operational synergies is the joint venture between Sylvania Platinum and Limberg Mining, a subsidiary of ChromTech Mining. The joint venture, announced in August 2023, involves forming a new company, Sylvania Limberg, to operate the Limberg chrome tailings retreatment plant located in the western limb of the Bushveld Complex in South Africa.

According to Sylvania Platinum, the joint venture’s rationale is to leverage both parties’ complementary strengths and expertise and extract additional value from the Limberg tailings. The joint venture will also enable the production of a PGM concentrate, which will be sold to Sylvania Platinum‘s existing offtake partner, Impala Platinum, and a chrome concentrate, which will be sold to ChromTech‘s existing customers. The joint venture is expected to generate synergies of R50m per year for Sylvania Platinum and Limberg Mining.

Other notable transactions include:

- **African Rainbow Minerals acquired the remaining 50% participation interest** in its joint venture that operates the **Nkomati Mine from Norilsk Nickel Africa.** Through this transaction, African Rainbow Minerals secures nickel sulphide orebody and bi-metal product credits, including copper, cobalt, platinum, palladium, and chrome.
- **Menar Capital (Pty) Ltd and Ntiso Investment Holdings**, South Africa-based private investment companies, have signed a binding agreement to acquire **Metalloys manganese alloy smelter from South32**. The terms of the deal were undisclosed, with completion expected in the first half of 2025, subject to competition and regulatory approvals.

Diversification and strategic realignment to create shareholder value

A third driver of M&A activity in the South African mining sector has been diversification and strategic realignment to create shareholder value. This has seen mining companies seek to diversify their operations and shore up their balance sheets through strategic disposals and acquisitions to create value for shareholders and a basket of diversified products. Companies have also pursued diversification and realignment to adapt their portfolios to changing market trends and customer preferences and enhance their resilience and sustainability in the face of volatility and uncertainty.

An example of this trend is the acquisition of Reldan, a United States-based recycling group, by Sibanye-Stillwater. The acquisition, completed in February 2024, involved the purchase of 100% of the shares of Reldan for $1.2bn in cash. Reldan reprocesses various waste streams, including industrial and electronic waste, to recycle green, precious metals, such as gold, silver, platinum, and palladium.

The acquisition will enable Sibanye-Stillwater to access a low-cost and sustainable source of precious metals and benefit from the growing demand for recycled metals driven by the circular economy and sustainability factors. The acquisition is expected to generate annual synergies worth $100m for the two companies.

Other notable transactions include:

- **MC Mining shareholders received an off-market Goldway Capital takeover bid (April 2024)** Specialist coal mining company MC Mining appealed to its shareholders not to accept an off-market takeover bid of AU$0.16 per share by Goldway Capital Investment as it drew shareholders' attention to an independent expert's report that found the offer neither fair nor reasonable, and suggested a range of between AU$0.214 and AU$0.356. Goldway extended the validity of its offer period as it had a substantial shareholding of 76.4% but was still short of the minimum 82.19% level necessary to satisfy the minimum acceptance condition for the offer to proceed. MC Mining's board subsequently advised shareholders to consider accepting the offer as they believed there was no likelihood of an alternative bid or competing proposal on more favourable terms in the near term. Goldway proposes delisting the company, citing limited liquidity in the trading of its shares.
- **Galiano Gold**, a Canada-based gold mining company, acquired 45% of the Ghana-based **Asanko Gold Mine from Gold Fields**. Gold Fields also disposed of its minority interest in Rusoro Mining with the intention of unlocking value for shareholders.

M&A forces are driving a profound transformation of the South African mining sector. The sector is poised for a future where it leverages its rich, diverse mineral resources and dynamic mining capabilities.

Looking ahead, we expect the M&A activity in the South African mining sector to remain robust and dynamic as the industry continues to adapt to changing market conditions and customer preferences. The opportunities and challenges posed by the transition to a low-carbon economy and the emergence of new technologies will also play a role in its development. As the world shifts to a greener and cleaner energy future, we anticipate that copper and other strategic minerals will remain in high demand and attract further M&A interest. We also foresee that consolidation and operational synergies will persist as a critical driver of M&A activity as mining companies seek scale, efficiency, and excellence in their operations. Moreover, we envisage that diversification and strategic realignment will continue to be key drivers of M&A activity as mining companies seek to optimise their portfolios and create value for their shareholders and stakeholders.

South Africa‘s mining sector: A tale of resilience and adaptation

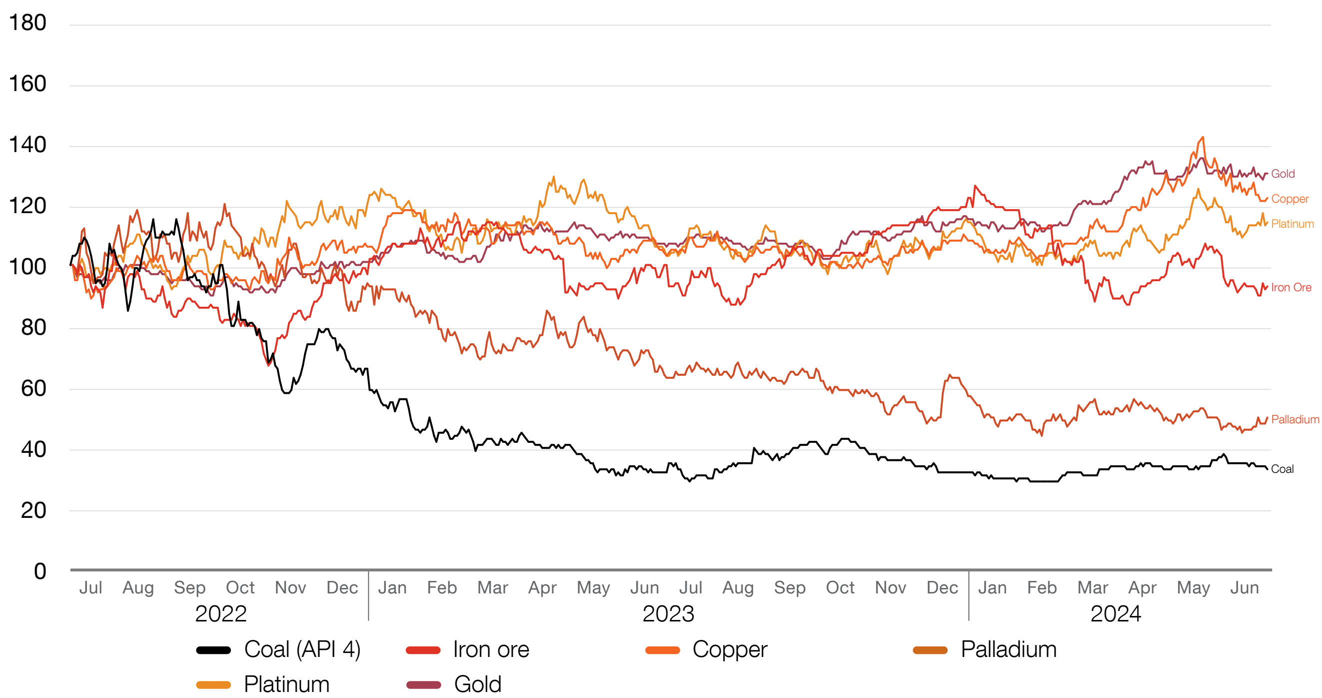
How the industry navigated the challenges of the past year and positioned itself for the future

The past year has been transformative in the South African mining sector. The industry faced headwinds from the global and domestic environments, ranging from geopolitical conflicts, regulatory uncertainty, energy shortages and logistical disruptions to labour challenges and environmental pressures. Despite these challenges, the sector demonstrated remarkable resilience and adaptability, finding new ways to survive and thrive in a changing world.

Market performance

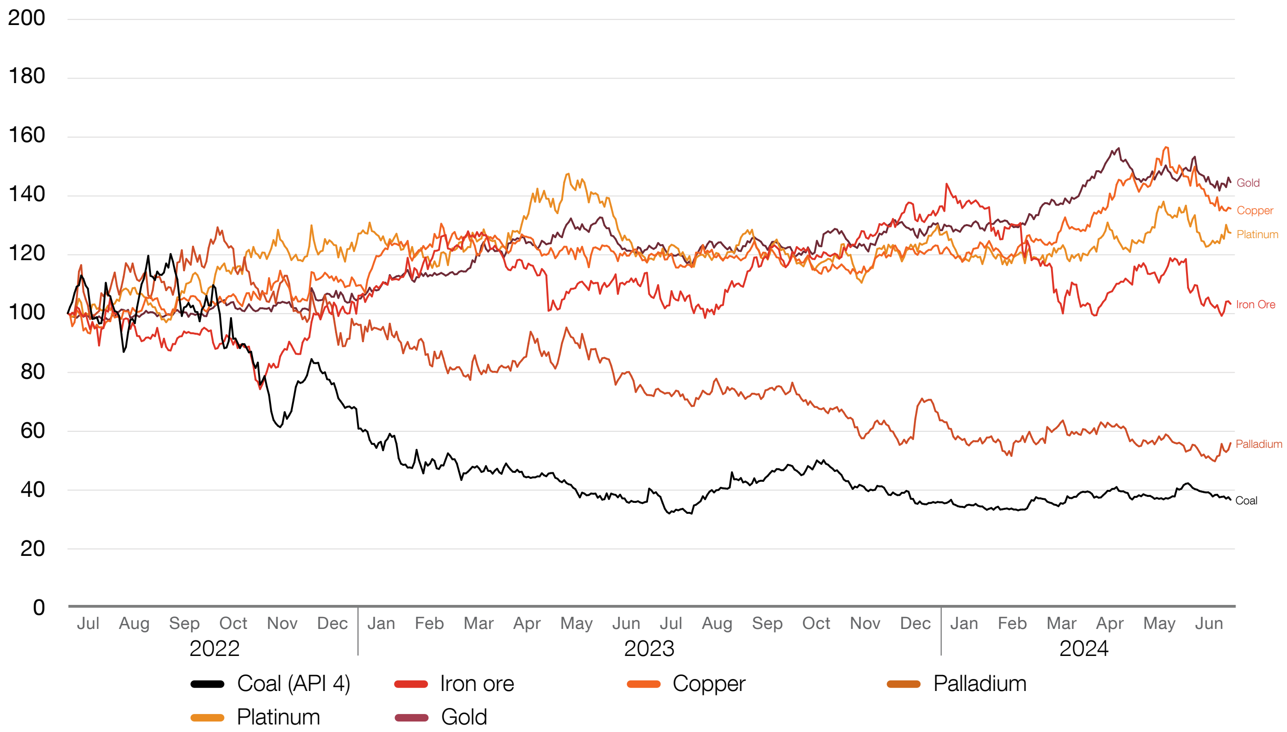
The South African mining sector’s performance over the past year presents a mixed picture, reflecting the divergent impacts of global and domestic factors on the industry. While some commodities benefited from rising prices, increased demand, and favourable exchange rates, others suffered from declining markets, oversupply and logistics constraints.

Figure 2: Metals and minerals prices, July 2023 – June 2024 (USD)



Source: S&P Capital IQ, PwC analysis

Figure 3: Metals and minerals prices, July 2023 – June 2024 (ZAR)



Source: Bloomberg, PwC analysis

Commodity price movements, Average year to June 2023 vs Average year to June 2024

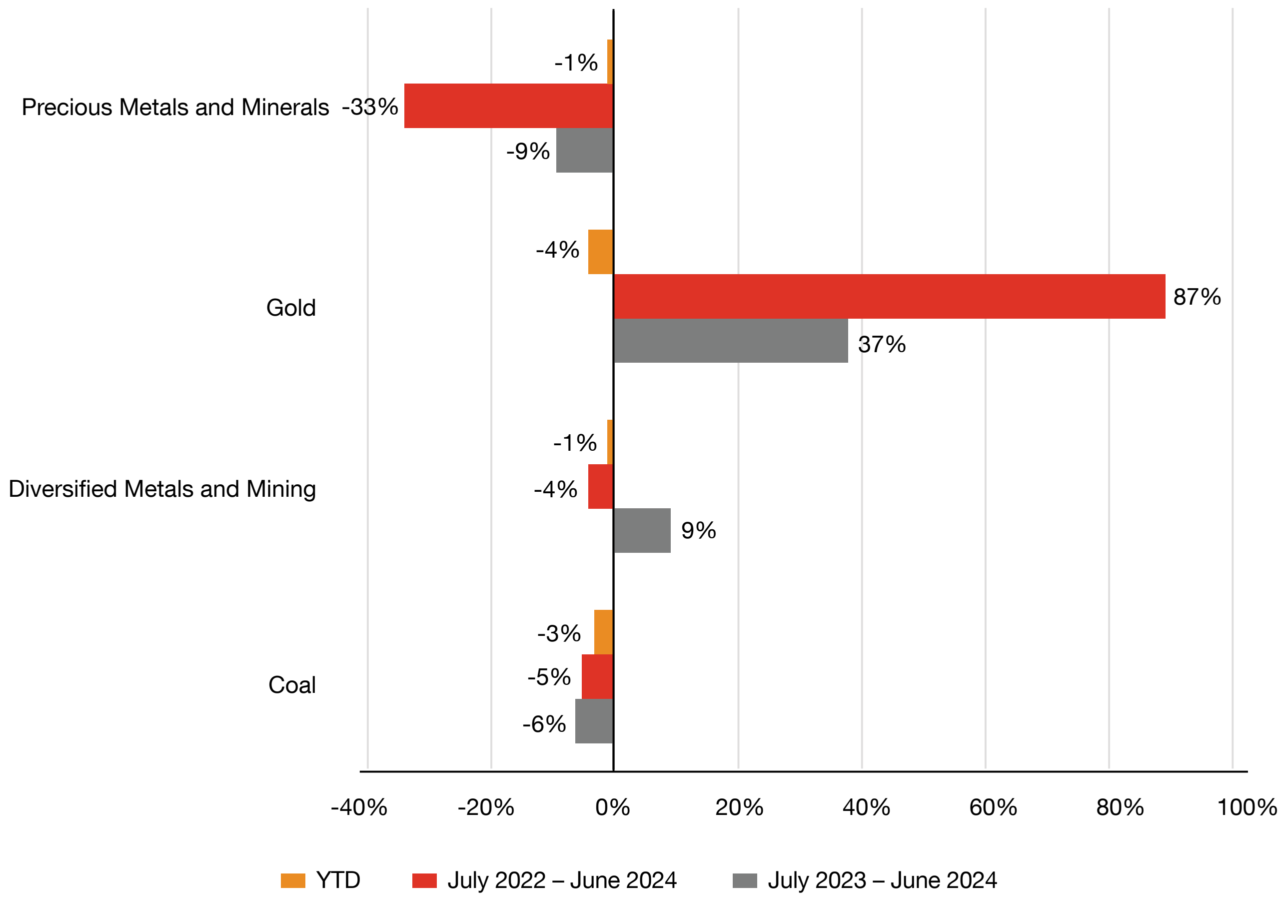
	Coal (API 4)	Iron ore	Copper	Palladium	Platinum	Gold	Oil
US$	(41%)	8%	5%	(39%)	(4%)	14%	(2%)
R	(37%)	14%	10%	(36%)	1%	20%	3%

Source: Bloomberg, PwC analysis

Over the period, the country's most prominent mining investors postponed plans on new projects in response to a slump in profits due to myriad local challenges and weakening commodity prices such as palladium. The investment cuts came against a backdrop of high unemployment, structural challenges and weak economic growth. Many investors also paused expenditure due to the national elections in South Africa that saw the governing African National Congress (ANC) lose its parliamentary majority for the first time since the dawn of democracy.

Mining players were also impacted during the period by the sorry state of the railway network operated by Transnet. Port inefficiencies, lack of rolling stock, cable theft and inadequate maintenance led to companies either stockpiling or scaling down production and laying off workers, given their inability to efficiently move products to export markets.

Figure 4: Mining sector: Average change in share price in the last year, two years and year-to-date



Source: S&P Capital IQ

Figure above shows that the mining sector's performance has been mixed. While gold and diversified minerals miners benefited from share price growth over the last 12 months, those operating in coal and PGM's saw a decline. Despite a global push towards renewable energy, coal remains a critical part of South Africas energy mix due to local energy production challenges resulting in the extension of the lives of coal-fuelled power stations.

The ongoing transition towards renewable energy and the emphasis on community development and environmental responsibility continue to impact the sector's trajectory. sustainability requirements, both locally and globally, have resulted in growing interest in battery minerals such as lithium, vanadium, cobalt and manganese, driven by the global shift towards electric vehicles (EVs) and renewable energy storage solutions.

Labour relations remain a critical issue, with negotiations ongoing between mining companies and labour unions to address wages, working conditions and job security. Consistent energy supply remains challenging in the sector, with intermittent power outages impacting mining operations. The industry has continued to invest in alternative energy sources to mitigate this risk. The Minerals Council of South Africa estimates that 80% of Nersa-registered capacity in renewable power generation has been by the mining sector, representing 7,500MW of new and planned generation capacity.

The industry remains impacted by significant challenges, and industry players remain cautious about the level of economic improvement and policies that the Government of National Unity may implement.

Gold: A shining star

Gold has been one of the best-performing commodities over the past year as the metal regained its status as a safe-haven asset in times of uncertainty. Prices have reached new highs, driven by many factors, including escalating geopolitical risks, budget deficit concerns, persistent inflation and central bank buying. The recent Russia-Ukraine and Israel-Palestine conflicts have heightened geopolitical uncertainty. At the same time, the collapse of the property market in China has triggered a flight to traditional store-of-value assets, such as gold.

The gold price has increased by 21% in US-dollar terms over the past year. South African gold miners have benefited from the rising gold price and weaker exchange rate, which boosted their revenues and profits.

The share price performance of gold miners has been exceptional, with an average gain in value of 37% over the past year, led by an increase of 108% in the value of Harmony Gold. The share price performance of gold miners has exceeded the rise in gold prices due to the operational leverage that South African miners benefit from when production and prices increase. The largely fixed cost base, which does not fluctuate with commodity prices, allows for increased profitability.

The outlook for the gold sector remains positive as the factors supporting the gold price will likely persist. However, the sector also faces some challenges, such as the depth and safety of mines, the availability and reliability of power supply, labour relations and wage negotiations, and the environmental and social impacts of mining. The sector will need to continue to invest in innovation and efficiency to maintain its competitiveness and ensure sustainability.

Coal: Dull but still essential

Coal, the backbone of South Africas energy mix, has seen its fortunes decline over the past year as prices retracted from their record highs. Regulatory changes in major markets, have curtailed demand for coal-fired power generation. At the same time, increased gas supplies have further reduced demand for coal.

The coal price has dropped by 67% over the past two years and by 6% over the past year in US-dollar terms, reflecting weakening demand and oversupply in the market.

As the world transitions to a greener energy future coal demand will reduce over the long term. However, coal will continue to play a crucial role during the transition. The pressure by regulators, funders and other stakeholders to limit new coal developments will mean that the price volatility experienced over the last few years is likely to continue as the mismatch between reduced coal production and demand continues. It is likely that the operating mines that can deliver into the price spikes while surviving the downturns stand to benefit.

The South African coal industry has also faced significant challenges in transporting its product to key export markets due to the deterioration of Transnet's rail network. Port inefficiencies, rolling stock shortages, cable theft and inadequate maintenance, have resulted in companies either stockpiling or scaling down production and laying off workers due to their inability to move their products efficiently. The Richards Bay Coal Terminal, the countrys primary coal terminal, experienced a further decrease in coal exports in 2023.

JSE-listed coal miners have lost an average of 6% in value over the past year, led by a decline in the share price of key players like Thungela Resources, which experienced a 21% decline. A slump in profits and revenues drove the decline as coal prices retreated and rail infrastructure constraints impacted operations. The outlook for the coal sector remains restrained as global and domestic trends point to a structural decline in the industry.

PGMs: A mixed bag

The PGMs sector saw a mixed performance over the past year, as different metals within the group have experienced different market dynamics.

Platinum has seen moderate gains, driven by increased industrial demand substitution for palladium and investment interest. Supply disruptions and lower output from South Africa due to labour strikes, regulatory issues and power supply disruptions have also supported marginally higher prices.

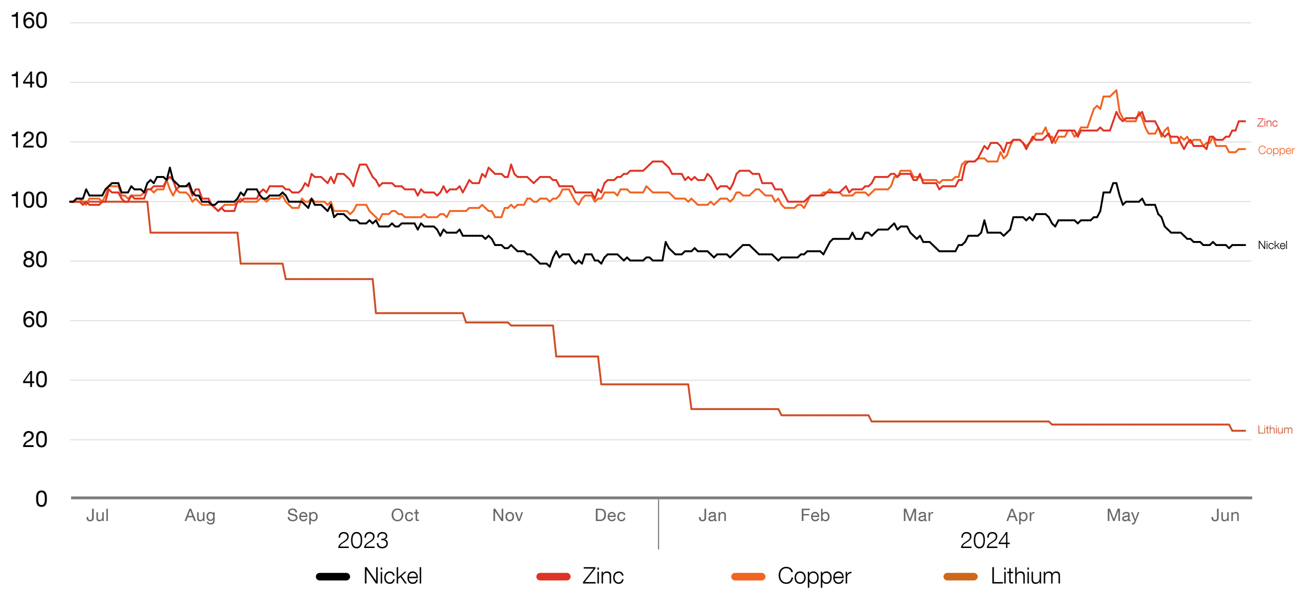
Palladium, however, has seen a rapid decline, dropping 20% in US-dollar terms over the past year. This is due to the rising adoption of electric vehicles, especially in China, which do not require any off-gas treatment systems. Most mined palladium production comes in a basket with other metals, limiting producers ability to slow palladium output, even when the market price is below their costs.

Recycling of PGMs from automotive catalysts and electronic waste has continued to grow in efficiency and effectiveness, supplementing primary supply and addressing some of the supply constraints in South Africa, the world‘s largest platinum producer. The automotive sector remains the largest consumer of PGMs because of stringent emission regulations globally. The demand for rhodium has continued to rise as automakers seek to meet expanding compliance standards. Growing interest in hydrogen fuel cells, which use PGM's as catalysts, continues to spur additional demand. This is expected to continue as the transition to cleaner energy solutions continues.

Research and development into battery technologies, including the potential use of PGMs in next-generation batteries, presents new opportunities for the sector. Increased exports of chrome, which is a by-product of PGM primary mining activities and requires minimal additional extraction costs, have served as an additional profit stream for PGM miners.

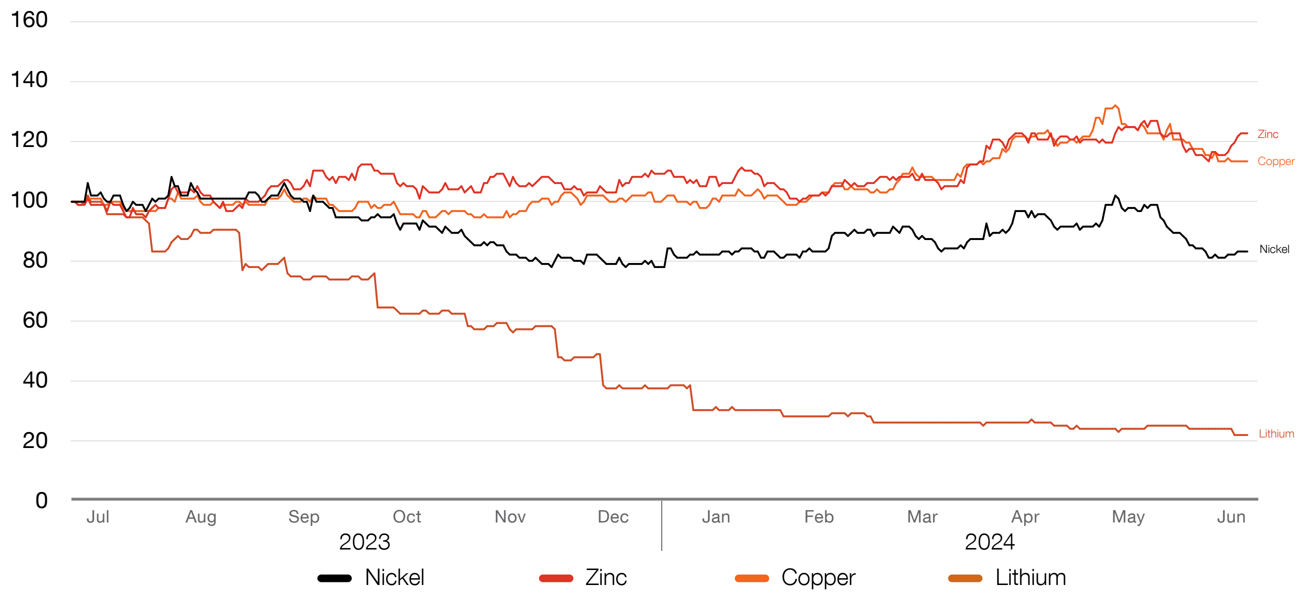
Despite JSE-listed PGM miners being up 15% since June 2024, they have lost an average of 9% in value over the last 12 months due to difficulties experienced in the South African environment and the overall PGM basket price.

Figure 5: Green metals and minerals prices, July 2023 – June 2024 (USD)



Source: S&P Capital IQ

Figure 6: Green metals and minerals prices, July 2023 – June 2024 (ZAR)



Source: Bloomberg

Green metals: A rising star

Green metals is a term used to describe the group of metals utilised in clean energy applications. These include copper, nickel, silver, zinc, cobalt, lithium and manganese, to name a few.

Over the past year, the green metals sector has demonstrated robust performance, propelled by surging worldwide demand for clean energy solutions and electric vehicles. Despite significant supply chain challenges and regulatory pressures, the industry has grown considerably, driven by rising commodity prices and strong financial performance.

Copper prices reached an all-time high in May 2024, following an increase of 17% in US-dollar terms over the past year. This was supported by increased digitalisation and electrification, specifically in the technology sector, with the advent of artificial intelligence and advanced processing technologies. Adoption and transition to renewable technologies, including electric vehicles, have also contributed to increased copper demand.

Rare earth elements, particularly neodymium and dysprosium, have seen increased demand due to their critical use in wind turbines, electric motors and electronics.

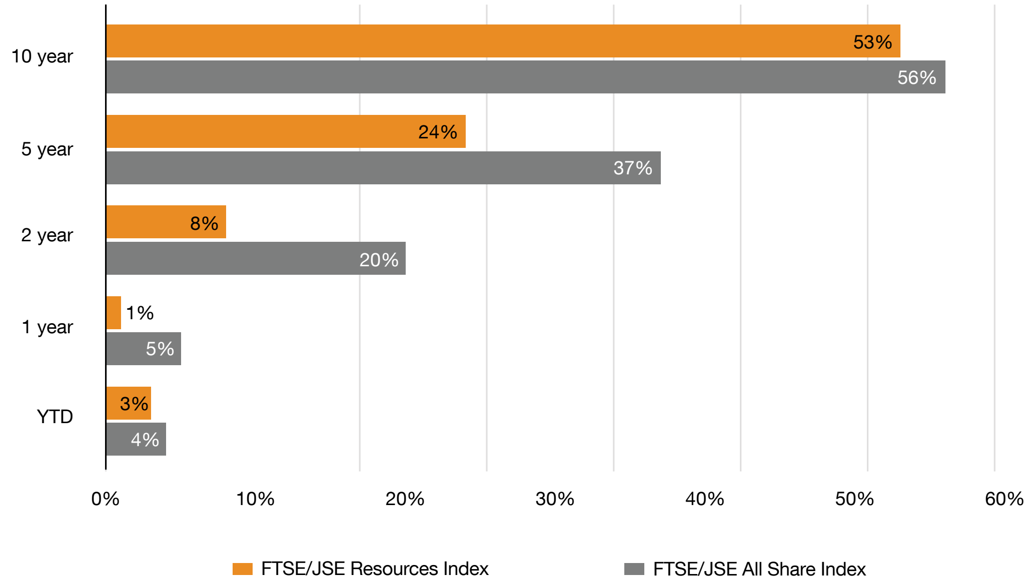
Despite increased demand for battery-powered technologies, the price of lithium declined dramatically by 75% over the last 12 months due to significant oversupply. In anticipation of increased lithium demand, miners significantly ramped up lithium production over the past two years, with exploration budgets rising by 78% during the 2023 calendar year. This surge in production led to a more normalised price position.

The challenging operating environment for South African miners has impacted both their traditional and green metal portfolios. Challenges experienced include logistical delays, geopolitical tensions and production setbacks, which contributed further to the supply-demand imbalance.

South African companies have a key role to play in delivering its metals and minerals into the global need for green metals, and considerable investments have been made in exploration and production capability enhancement. For example, Q Global Commodities (QGC), a South African company, raised $1bn from international investors for investment into South African mines producing green metals.

Total sector returns

Figure 7: Relative total shareholder return: All Share Index vs Resource Index



Source: S&P Capital IQ

Historically, the JSE was broadly underpinned by long-term performance in the mining sector. However, more recently, a reversal has been observed in this relationship, with mining houses now underperforming the JSE across the short, medium and long term. Although this is a reflection on the cyclical nature of commodity prices, the limiting impact of mine to market infrastructure, lack of reliable and cost competitive energy and other cost pressures weighed on the industry despite its significant potential. This has made global mining houses reluctant to reinvest in their SA operations and discouraged local investors from supporting the sector.

The South African mining sector has shown remarkable resilience and adaptation over the past year amid a challenging global and domestic environment. While the industry faces significant regulatory, operational, economic and environmental challenges, it continues to adapt. The sector has leveraged its strengths, such as its diverse and rich mineral endowment, skilled and experienced workforce, strong and established infrastructure to overcome some of its most significant weaknesses. These include ageing and deep mines, unreliable and costly power supply, demanding labour relations and the uncertain and complex regulatory framework.

The sector has also embraced the opportunities and innovations that emerged from the crisis, such as the transition to renewable energy and electric vehicles, the development of new technologies and processes, the exploration of new markets and partnerships and the enhancement of its social and environmental responsibility. The sector has demonstrated its commitment and contributed to the country's development and transformation by investing in local communities, supporting small and medium enterprises, promoting diversity and inclusion and reducing its carbon footprint.

The South African mining sector is a vital and valuable part of the country's economy and society. It has the potential and the vision to play a leading role in the global mining industry and the transition to a more sustainable and inclusive future. However, the sector also needs the support and collaboration of all its stakeholders, including the government, regulators, unions, investors, suppliers and customers, to create a conducive and enabling environment for the sector to flourish and thrive. Together, we can ensure that the South African mining sector remains a tale of resilience and adaptation.

Financial positioning for resilience

The South African mining industry has not been spared the volatility of recent times, with many businesses facing unprecedented challenges. The mix of a high inflationary environment, high interest rates, fluctuating commodity prices, power supply constraints and increasing staff and salary costs have been difficult. When coupled with geopolitical and policy uncertainty, the business environment has been significantly constrained.

As businesses seek to steer through today's challenging operating conditions while sustaining investment and growth, the balance sheet can either be a drag or a key source of agility and strength.

Against this backdrop, we looked at the balance sheets of large listed South African mining businesses to reveal what tactics these businesses have used, or can use, to build resilience.

Identifying a resilient balance sheet versus an unhealthy one

A resilient balance sheet has:

- A fit-for-purpose capital structure that aligns with the business' strategic needs and direction
- Capital that has been allocated appropriately into assets/resources that yield healthy returns through the cycle above the cost of capital
- Performance, liquidity and risk mitigation measures that are actively monitored and managed.

Unfortunately, a deteriorating or unhealthy balance sheet is often not diagnosed early enough. This erosion can happen slowly over time due to reduced margins, returns, and liquidity squeezes, with short-term actions being undertaken to rectify the situation, including:

- Taking on more funding
- Stretching creditors
- Selling assets at discounted value.

Often these measures are required to ensure survival in the short run with the hope to eventually succeed in the long run.

It is, therefore, essential to look beyond the current position and look at trends over time. We often use the analogy of a business being like a lake. When the lake is full, or the enterprise is seemingly performing well, the lake looks pristine, but when it starts to drain due to factors both within and outside of a business' control, you may begin to see the old tyres, wrecked vehicles and other items hidden away in the depths.

Building balance sheet resilience

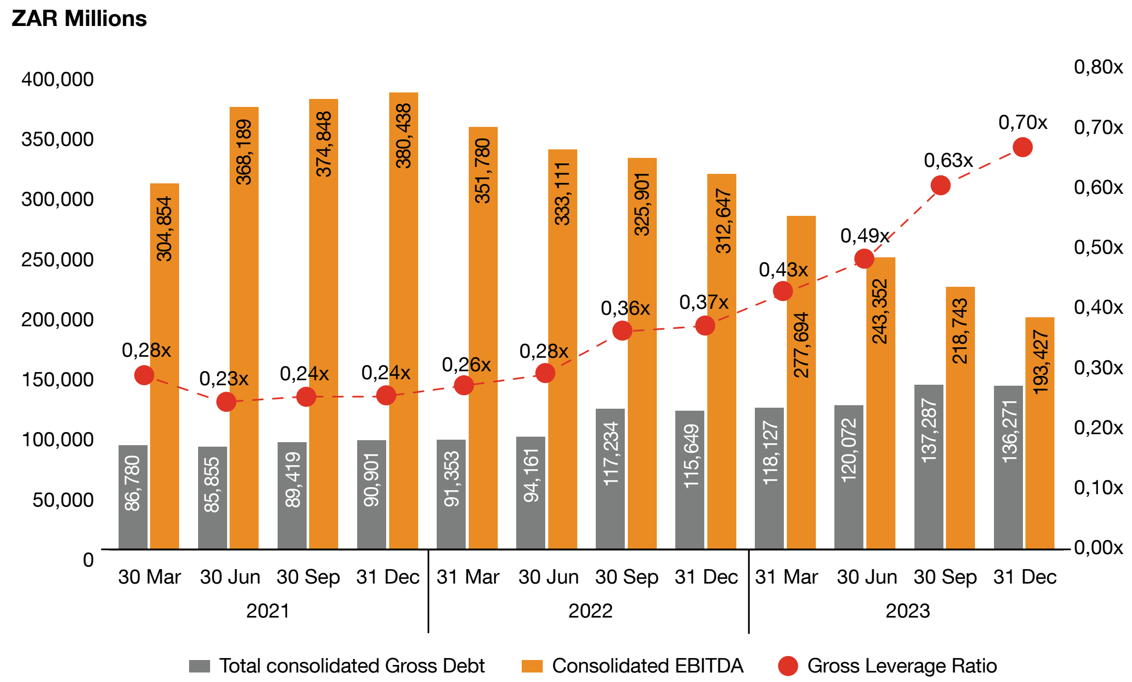
To build balance sheet resilience, businesses should:

- Create sufficient buffer for potential 'shocks' over time by actively seeking to:
  - Review current borrowings against where the business is and wants to be and look to refinance proactively
  - Simplify borrowing facilities, especially where complexity has built up over time
  - Align long-term funding, working capital and trade finance facilities to requirements
  - Embed appropriate processes around risk mitigation (including currency, interest rate and refinancing risks)
  - Protect liquidity by re-examining treasury management
  - Have sufficient capacity and skills through the business that allows teams to apply the necessary judgement needed to navigate complexity
  - Ensure that key performance indicators are aligned with business objectives on a sustainable basis
- Conduct an independent review / diagnostic / business due diligence of the organisation as a valuable tool to support decision-making
- Run stress testing exercises across the business to demonstrate the impact of various scenarios on the balance sheets. This may highlight weaknesses, and corresponding planning can be undertaken.

The state of SA Mining's balance sheets

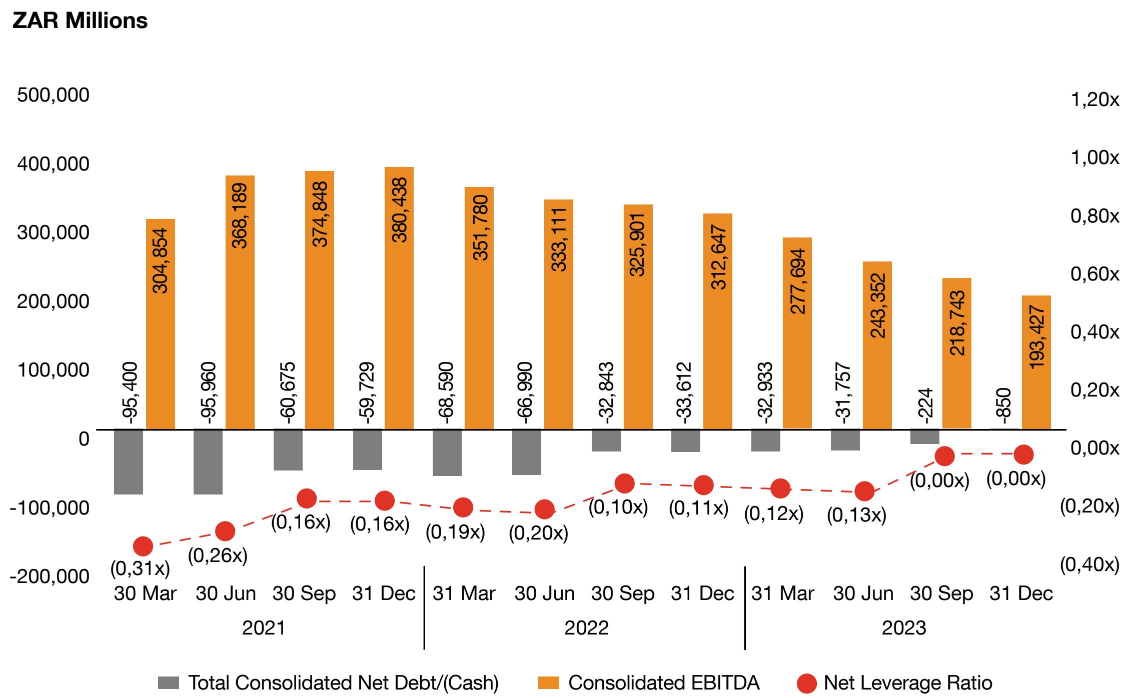
Consolidated SA Mining

Figure 8: Gross leverage ratio: SA Mining consolidated



Source: S&P Capital IQ, PwC analysis

Figure 9: Net leverage ratio: SA Mining consolidated

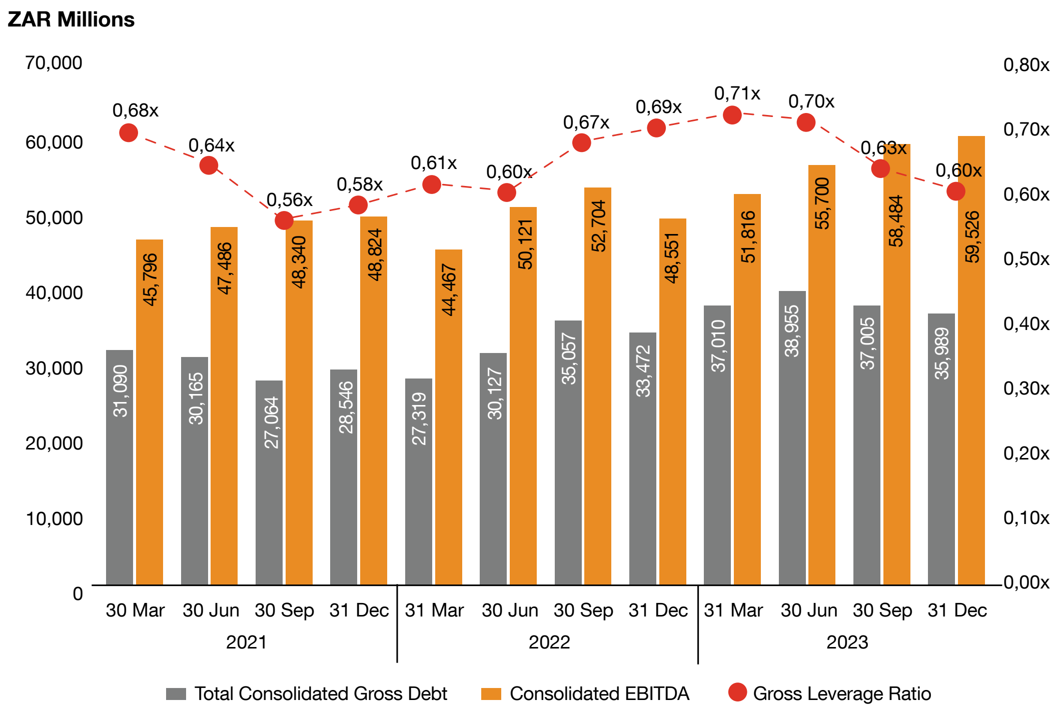


Source: S&P Capital IQ, PwC analysis

- Overall, the SA mining industry gross debt levels have been increasing while earnings before interest, tax, depreciation and amortisation (EBITDA) have decreased, resulting in a higher gross leverage ratio. This is mainly due to the pressures experienced in the platinum group metals (PGM) sector. As at June 2024, the gross leverage ratio of 0.77 was still significantly better than the 2 times at June 2016.
- It appears that operational declines have been funded significantly by cash on hand, with the industry maintaining a net cash position but at lower levels over time. The industry went into the down cycle much stronger than in the previous down cycle which means that there is still capacity for debt funding at present.

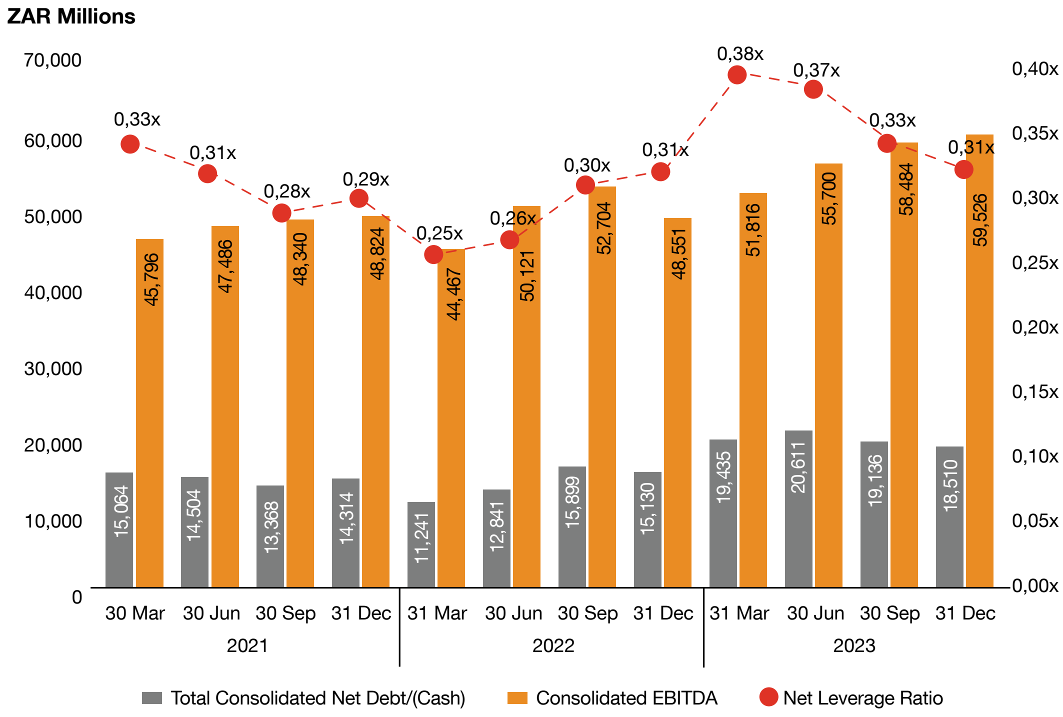
Gold

Figure 10: Gross leverage ratio: Gold SA Mining consolidated



Source: S&P Capital IQ, PwC analysis

Figure 11: Net leverage ratio: Gold SA Mining consolidated

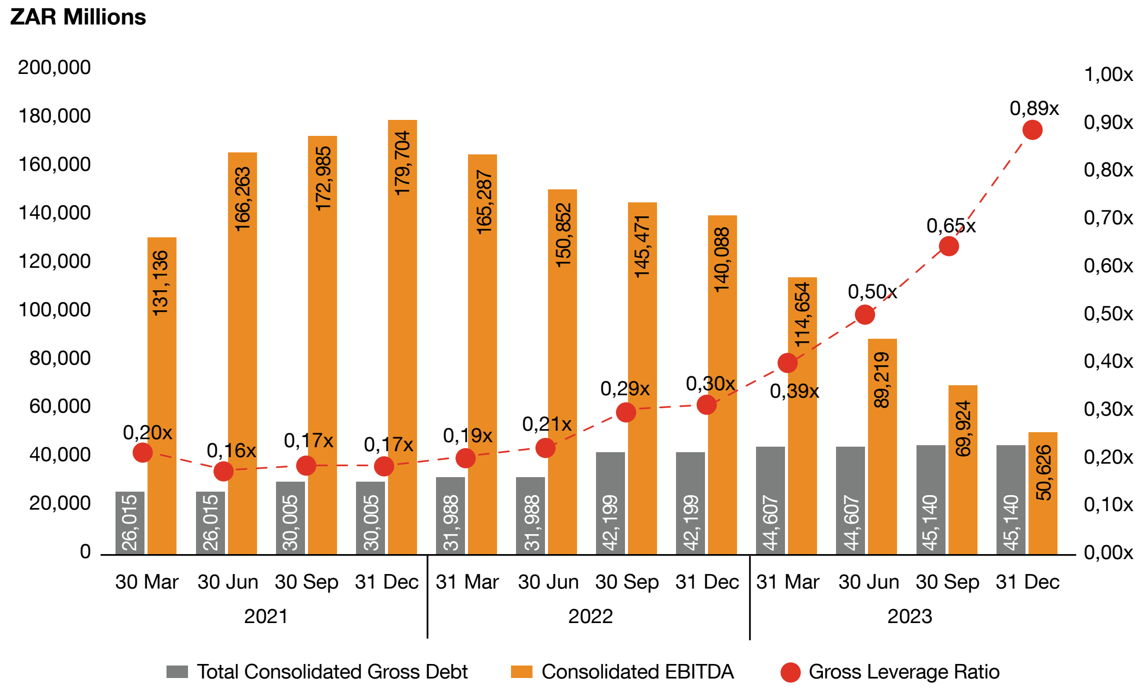


Source: S&P Capital IQ, PwC analysis

- Gold mining sector debt and gearing have remained relatively consistent over the period under review. However, an increase in EBITDA levels, due to record gold prices, has contributed to a decreasing trend in net leverage for the sector.
- Growth in EBITDA has outperformed the increase in the gold price, reflecting positive operational gearing during the period.
- Beyond the period under review, the sector will continue to benefit from an increase in the gold price, further enhanced by the positive operational gearing, which may result in a further reduction in net leverage in the short term.
- Overall, balance sheet health in the Gold sector appears to be stable.

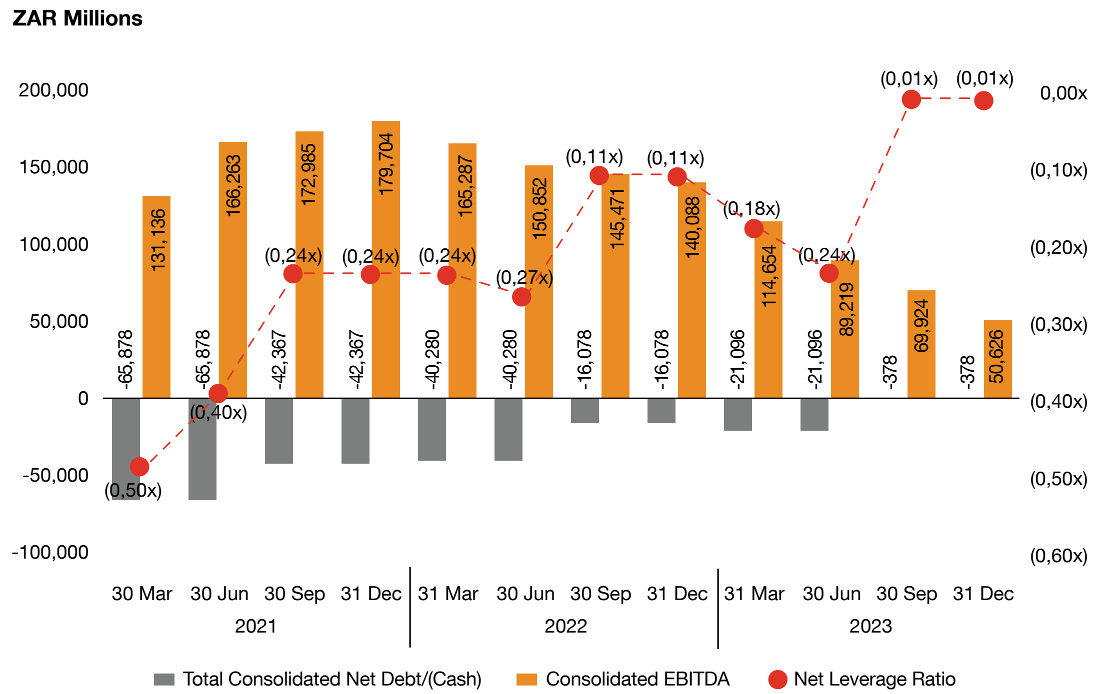
PGMs

Figure 12: Gross leverage ratio: PGMs



Source: S&P Capital IQ, PwC analysis

Figure 13: Net leverage ratio: PGMs

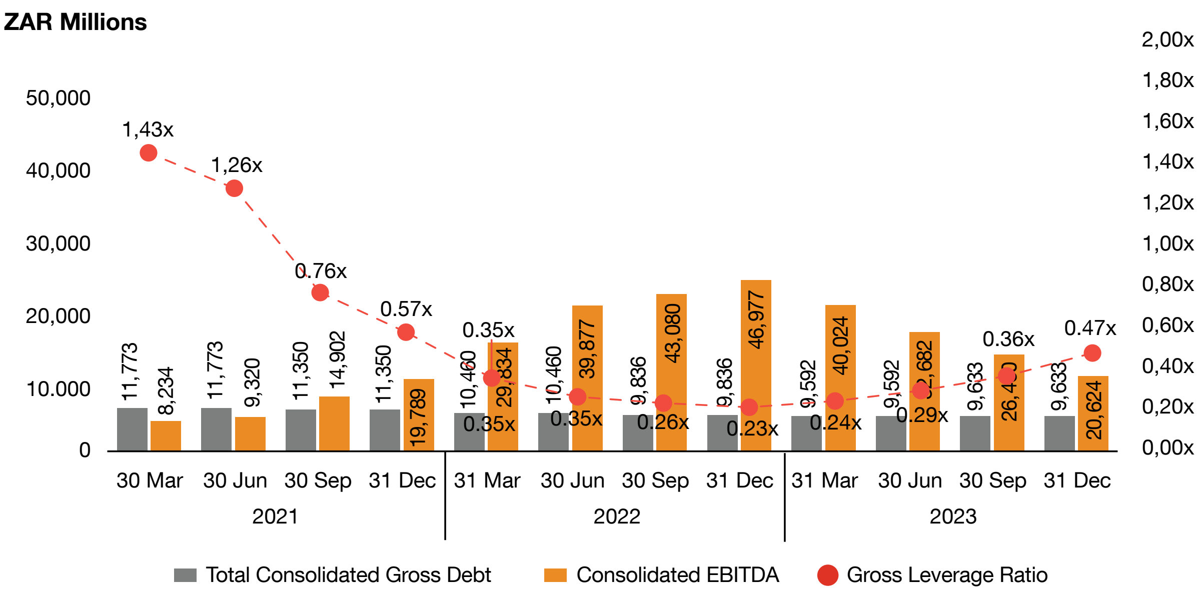


Source: S&P Capital IQ, PwC analysis

- The PGM basket price has experienced a price slump during the period under review, resulting in significant pressure on EBITDA performance.
- Similarly, an increase in total debt has been observed in line with an adverse turn in the commodity cycle, resulting in a significant increase in the gross leverage ratio across the PGM sector.
- The net cash balance in the sector has decreased significantly over the period as operational performance has weakened, which has been sustained through cash utilisation rather than debt funding. Should current trends continue, we anticipate that further debt funding may be required to be brought onto the balance sheet.
- Overall, balance sheet health in the PGM sector is still acceptable but with increasing stress indicators. The longer prices remain at their current depressed levels the more drastic measures will be required to preserve balance sheet integrity.

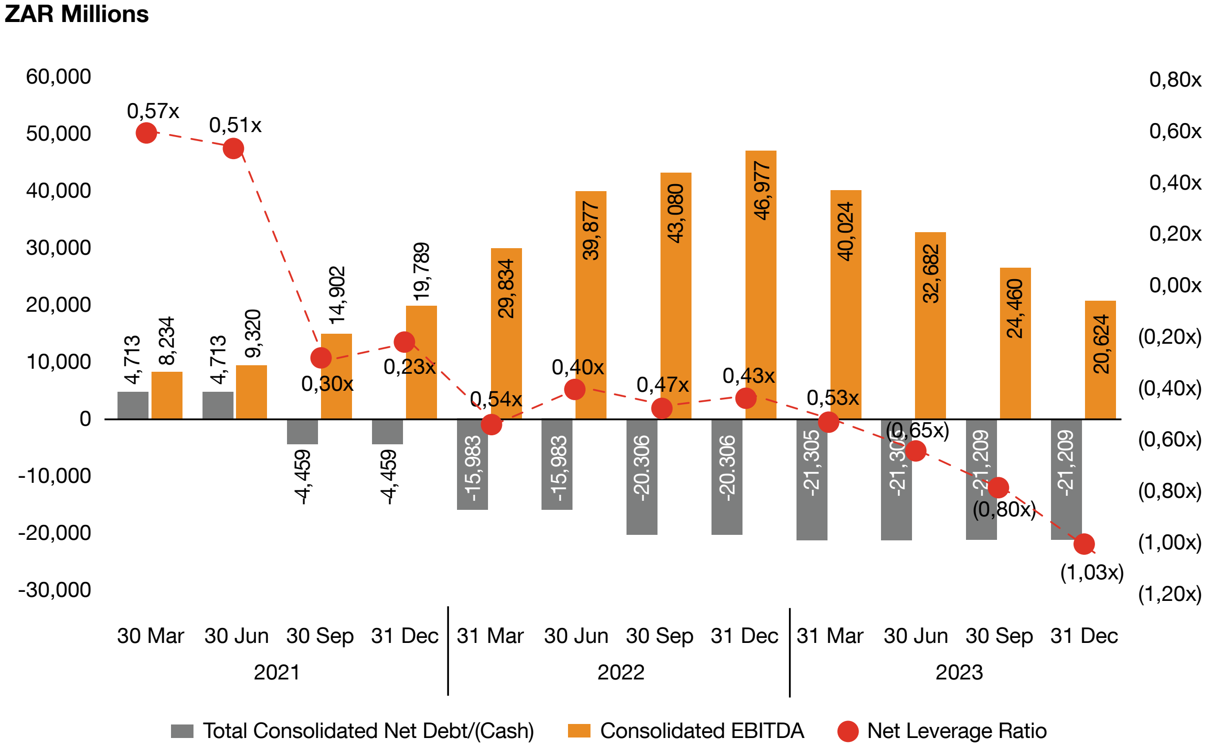
Coal

Figure 14: Gross leverage ratio: Coal



Source: S&P Capital IQ, PwC analysis

Figure 15: Net leverage ratio: Coal



Source: S&P Capital IQ, PwC analysis

- The Coal sector has seen a steady level of degearing through the coal cycle. One of the factors contributing to this degearing has been the scarcity of available funding options for new coal developments, given that it is seen as a 'dirty' industry.
- The energy transition will come with price volatility and the local market used the record prices of 2022 to strengthen their financial position.
- Overall, balance sheet health for the Coal sector appears stable, although decreasing EBITDA levels could add stress to the sector. This will need to be assessed against normal commodity cycle movements/corrections.

Sourcing of capital

The appropriate sourcing and use of funding in the mining industry is vital. The nature of long-term projects is that there is a need to match long-term cash flows to longer-tenor funding. However, given the volatile nature of commodities, it is critical that this funding is not at a level that increases financial risk unsustainably. Therefore, the appropriate mix of short-term and long-term funding with the flexibility to move with and through the commodity cycle is required.

A healthy business that generates sufficient funds for capital allocation is the ideal, but not always possible in a capital intensive industry.

Drawing on existing lenders and transactional banking relationships can yield surprising results as far as funding options are concerned, but having discussions beyond existing funders can provide the competitive tension needed to support improved terms. In some instances, funders may be limited in their capacity or risk appetite to fully support funding requirements, in which case syndicated loan facilities may be appropriate and can be explored.

Green and sustainability-linked loans

Consideration should be given to green loans and sustainability-linked loan (SLL) funding, which is emerging as the financing option of choice globally and in South Africa, particularly in the mining industry, which is still largely seen as a 'dirty' industry despite ongoing efforts to clean up this image.

But what are green loans and SLLs? Green loans are typically designated as such when a borrower utilises the funding for a specific 'green' project/purpose. A project can be classified as green if it, for example:

- Reduces greenhouse gas emissions,
- Promotes climate resilience or adaption
- Encourages the efficient use of resources
- Improves environmental management capacity aligned to the Sustainable Development Goals (SDGs), and global good practice standards and policies.

SLL funding, on the other hand, typically has less restrictive limitations on the use of funds, but is tied to the borrower's overall ESG strategy and relies on ESG-linked key performance indicators (KPIs) to drive the desired behaviour.

In recent years, a number of mining houses have either raised or are exploring raising green or SLL funding, either bilaterally or through the capital markets. Some have chosen to do so specifically to build renewable energy capacity to stabilise their operations' power supply and wheel excess capacity into the national grid.

It is worth noting that beyond any immediate commercial benefits, the so-called 'green halo' effect that green and SLL funding brings allows parties within the business value chain to benefit from improved ESG metrics, which may have broader benefits not immediately quantifiable.

These may include, for example, retaining key suppliers or offtakers due to improved ESG credentials. Green and SLL funding options are also being actively promoted by funders who have committed to aligning with international net zero initiatives. For funders to make good on these commitments, their customers have to join them on their own sustainability journeys.

However, the benefit of green and SLL facilities does not come without a cost. The consequences of allegations of greenwashing can be severe. Additionally, incremental interest rate margin reductions bring increased costs of monitoring and managing rigorous ESG programmes, which may all but wipe out potential savings.

We have found that downward interest rate margin ratchets are increasingly finding their way into funding agreements to incentivise borrowers to embed and deliver on stretched ESG metrics. The direct commercial benefit of these margin ratchets varies widely. The opposite is also true — many funding institutions see ESG as an embedded part of a borrower's business. They are including ratchets that penalise businesses for not meeting ESG targets. Therefore, borrowers and funders must assess green or SLL-linked KPIs and targets carefully to ensure that any benefits realised are balanced with the associated costs thereof.

In addition, the Loan Market Association (LMA), which develops best-practice funding agreement content globally, is steadily adding more content covering warranties and undertakings relating to ESG compliance. We see this trend continuing in the future.

Needless to say, having the right partners involved to support businesses on a sustainable funding journey is essential.

Equity funding

"In 2024, the mining sector faces challenges in traditional equity funding due to commodity prices and economic uncertainties. Consequently, mining companies are turning to alternative financing models like production-based and royalty financing, which offer flexibility by leveraging future production rights to secure capital, thus reducing reliance on traditional equity or debt financing."[3]

B-BBEE remains a central component of the mining sector's regulatory framework, with the latest Mining Charter (the Charter) mandating 30% black ownership for new mining rights. The Charter emphasises employee share ownership plans (ESOPs) and community ownership, aiming for more inclusive and balanced wealth distribution. However, many ESOPs have struggled due to their reliance on debt-financed equity models, necessitating the incorporation of profit-sharing components for more stable income streams.

The regulatory environment continues to evolve, and the latest Mining Charter has introduced more stringent compliance requirements. The ‘once empowered, always empowered’ principle provides stability by recognising previous BEE transactions even when black shareholders exit. However, complexities arise around the renewal and sale of mining rights, as new rights require 30% black ownership. The Charter also mandates specific procurement and enterprise development targets, emphasising local content in capital goods, services and consumables to promote local economic development.

Aligning B-BBEE strategies with broader ESG goals is crucial for attracting investment and ensuring sustainable development. Integrating ESG principles can appeal to investors focused on sustainable and responsible investment opportunities. The alignment supports regulatory compliance and fosters innovative financing models. Opportunities for funding and restructuring are significant, and by refining B-BBEE and ESG strategies, the sector can better navigate its financial and regulatory challenges, ensuring resilient and inclusive growth.

Communicating with stakeholders

Effective communication is an essential factor for any successful business. It‘s imperative in the mining sector, which has many stakeholders, including unions, lenders, shareholders (including activist shareholders), suppliers, customers and regulatory authorities.

These stakeholders have diverse needs and expectations, and therefore, it is essential to have regular interactions to build trust and understanding, which can help build relationships as well as long-term loyalty.

Open and honest communication also allows stakeholders to address any concerns they have regarding the company’s financial position. Keeping them informed will provide the right level of detail and insight to ensure they are comfortable with the situation. It can also help foster a spirit of goodwill, which can go a long way towards creating the confidence necessary to support the company during times of uncertainty.

Effective communication helps ensure stakeholders are prepared for potential risks or challenges. Having an accurate and comprehensive grasp of any impending financial or operational issues will be essential for stakeholders in terms of providing any necessary assistance. By staying in close contact with stakeholders, the company can ensure they have all the information they need to make the best decisions.

Key takeaways

The overall SA Mining’s balance sheet is stronger than during the previous down cycle

With increasing debt and declining EBITDA in some market sectors, such as PGMs, and improving performance in others (e.g. Gold), overall South Africa mining industry balance sheets show a divergent mix of trends as a result of both local and global factors. When viewed at a point in time, South Africa Mining’s balance sheet health is currently stable, although, over time, some stress is being observed.

Innovative capital sourcing

Mining companies increasingly use green and sustainability-linked loans to support operations in South Africa and worldwide. These instruments align with global sustainability goals and help secure capital by appealing to environmentally conscious investors.

Proactive stakeholder engagement

Effective management of stakeholder relationships is critical. Transparent engagement with local communities, regulatory bodies and investors helps mitigate risks, ensure community support, and foster a positive operational environment.

Enhanced Sustainability focus in a South African context

Integrating environmental, social and governance (ESG) principles is vital. The latest Mining Charter emphasises higher black ownership and community involvement. Aligning Broad-Based Black Economic Empowerment (B-BBEE) strategies with ESG goals attracts sustainable investment and ensures regulatory compliance.

Refining threshold: PGM

Southern African platinum mining companies control the richest platinum deposits in the world. The Igneous Bushveld Complex in South Africa holds the largest deposits of platinum-bearing ores globally, while the Great Dyke in Zimbabwe contributes significantly to global platinum-bearing ore reserves. The World Platinum Investment Council (WPIC) estimated the total supply of platinum from refined production in 2023 to be 5.6 million ounces, of which 70% is attributable to South Africa and 10% to Zimbabwe.

One of the key characteristics of platinum-bearing ore bodies is the diverse mix of primary elements embedded in them that are required for industrial purposes. These ore bodies are rich in precious metals and base metals such as nickel, copper, and chromium. Certain reef types also yield different minerals. The Platreef, contains far higher quantities of nickel and palladium than the other reefs. The Upper Group 2 (UG2) reef tends to yield more significant quantities of chromite, while the Merensky reef produces higher grades of platinum and rhodium.

There are a number of metallurgical operations to cater for the smelting and refining of platinum-bearing ores in South Africa and Zimbabwe. The refining process of matte produced by smelters is highly complex, involving numerous stages of chemical separation, conversion and leaching. A vital element of the refining process for platinum and other PGMs is the initial separation of base metal contents from matte.

Southern Africa has the following metallurgical operations for platinum group metals:

- There are currently nine smelting and conversion facilities in Southern Africa, two of which are in Zimbabwe. One of these facilities has been recently placed on care and maintenance.
- There are currently four base metal refineries, all of which are operational and situated in South Africa.
- There are three precious metal refineries, all of which are operational and situated in South Africa.
- Approximately 65% of precious metal refinery capacity is in the Rustenburg area.

Given the nature of the refining process employed by primary refiners, which requires initial processing by base metal refineries before being sent to precious metal refineries, as well as the sizeable number of smelting and conversion facilities, there may be a bottleneck in the pipeline for the production of PGMs.

This article aims to estimate the theoretical annual capacities for platinum production at smelters and converters, base metal refineries and precious metal refineries. It also assesses the magnitude of bottlenecks based on theoretical capacities at the different stages of production. In this article, relevant capacities are in terms of ounces of platinum (expressed in million ounces [Moz]) and base metal tonnes (expressed in thousands of tonnes [kt]). Base metals considered are limited to nickel and copper. Consideration has been given only to primary smelted and refined material. No consideration of slag and revert processing has been made.

Smelting and converting capacity

The installed smelter capacity in Southern Africa caters for annual production of around 14.65Moz of refined equivalent platinum ounces and 268kt of refined base metals. This capacity represents more than 300% of the refined production of platinum supplied globally by South Africa and Zimbabwe in 2023. Of the theoretical capacity noted, around 74% can be attributed to four smelting and converting facilities out of the nine facilities assessed.

Of the producers considered, one producer's installed smelting and conversion capacity represents 65% of the total refined equivalent capacity for the smelting and converting facilities considered in this article. This producer's installed smelter capacity could process almost 220% of Southern Africa's 2023 platinum supply.

The accompanying table provides a summary of smelter capacity.

Base metal refining capacity

Province	Country	Platinum capacity (Moz)	Base metal capacity (kt)
Gauteng	South Africa	2.30	48.64
Limpopo	South Africa	0.90	7.86
North West	South Africa	3.88	58.84
		7.08	115.35

PwC analysis shows that installed base metal refining capacity in Southern Africa could produce around 7.08Moz of refined equivalent platinum ounces and 115kt of refined base metals. This theoretical capacity represents almost 160% of the refined production of platinum supplied globally by South Africa and Zimbabwe in 2023. Of this capacity, nearly 80% can be attributed to two of the four producers with base metal refining capacity. These two producers alone could process up to 125% of Southern Africa's 2023 platinum supply.

Precious metal refining capacity

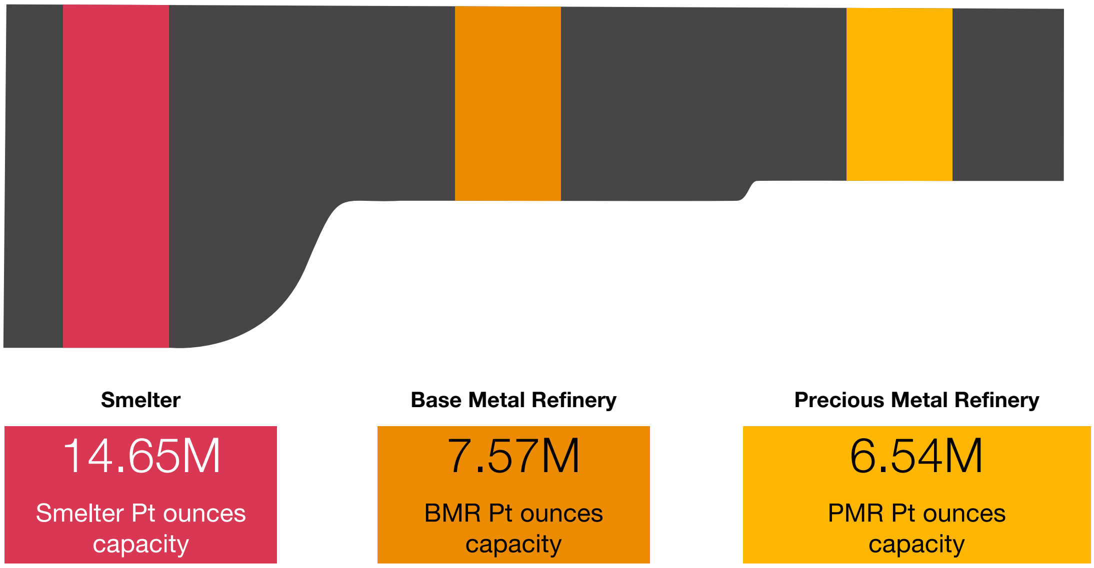
Province	Country	Platinum capacity (Moz)
Gauteng	South Africa	2.30
North West	South Africa	4.24
		6.54

Three designated precious metal refineries account for the total installed precious metal refining capacity in Southern Africa of around 6.54Moz of refined equivalent platinum ounces. This represents over 145% of the refined production of platinum supplied globally by South Africa and Zimbabwe in 2023. Almost 90% of this capacity is provided by two refineries. Together, they can produce nearly 130% of Southern African 2023 platinum supply. One refinery in Rustenburg can supply around 78% of Southern Africa's refined platinum supply in 2023.

Analysis

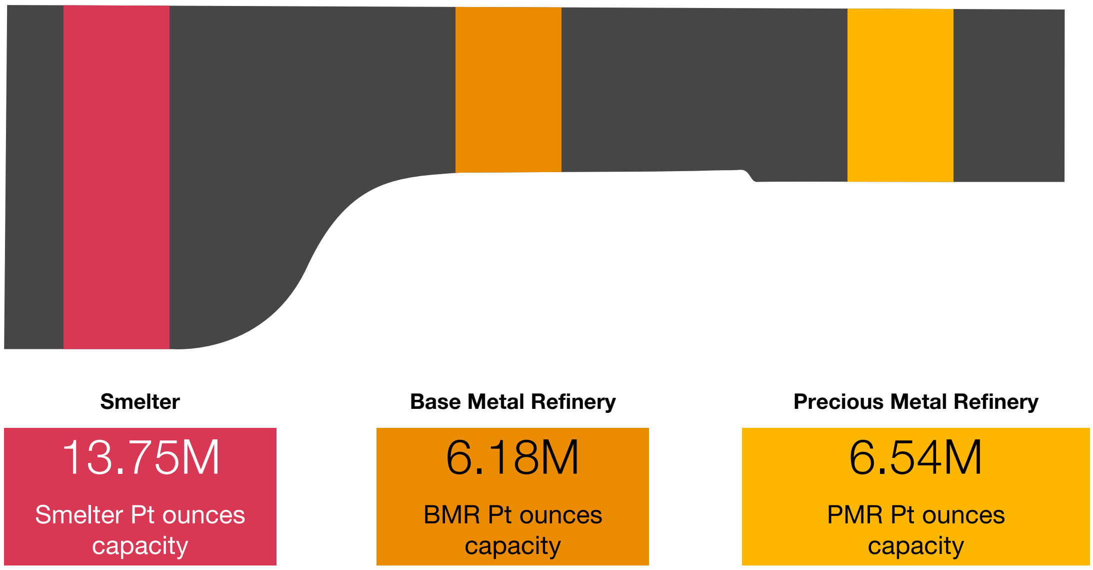
There is a disproportionate capacity for producing refined equivalent platinum relative to the theoretical capacities of base metal and precious metal refineries.

Annual production capacity of smelters, base metal refineries and precious metal refineries (oz)



The figure above shows that installed capacity at base metal refineries would create a bottleneck of in-process platinum of around 7.57Moz. This equates to around 107% of their current refining capacity. The bottleneck also represents almost 170% of refined platinum production in Southern Africa in 2023. It should be noted that the theoretical base metal refining capacity for platinum exceeds the refining capacity for precious metal refineries by around 533koz, indicating that there is a theoretical bottleneck between base metal refineries and precious metal refineries.

However, one of the producers with base metal refining capacity does not have local precious metal refining capacity and dispatches platinum-bearing material to third-party refiners outside South Africa. If the capacities of this producer are disregarded, the picture changes somewhat.



The graph indicates that the refining capacity of precious metal refineries would be limited by a shortfall of 360koz from the base metal refineries.

The analysis indicates more than sufficient capacity for PGM production in the local market. However, the move towards more mining from Platreef which is base metal rich could require more focus on the need for base metal refining capacity when the ratio of base metals to Platinum increases.

The excess smelter capacity may also present a case for decommissioning certain plants without creating a shortfall of matte to be fed into refineries. The following considerations for smelting operations that utilise pyrometallurgical processes apply:

- Conventional furnaces still use coal to generate the heat required for smelting. As such, operators of such furnaces expose themselves to the volatility in coal prices and can expect to incur carbon tax liabilities for the carbon dioxide generated by furnace operations.
- Concentrate fed into smelters tends to have elevated levels of sulphur requiring removal before refining. Upon smelting, this generates significant emissions of sulphur dioxide. Legislation has been enacted by the Department of Forestry, Fisheries, and the Environment to set limits on acceptable sulphur dioxide emission levels allowed for certain smelting facilities, with producers faced with the threat of closure of smelters without remediation.
- Smelter operators have been forced to invest in developing sulphur removal plants, which can reduce sulphur dioxide emissions by up to 95%, to comply with this legislation. Sulphur removal is costly and provides no material upside to the smelter's performance. Sulphur plants do, however, facilitate the production of sulphuric acid, which can be sold to industrial consumers or applied to refining operations where leaching requires acid to dissolve individual metals.

This analysis suggests there is sufficient base metal and precious metal refining capacity for PGMs in South Africa at the current low production levels. While several factors drive refined production of PGMs, the following factors are most relevant:

Logistical factors
Proximity to smelting and refining facilities impacts the transport costs to the processing facilities.
Market factors
The basket price for PGM ounces remains critical to the viability of any expansionary and sustaining capital commitments relating to mining, processing or refining investment decisions. During 2024, there has been a correction between platinum and palladium prices — the prices are now more closely aligned, and neither metal's price has exceeded $1,100 per ounce. Except for gold (considered part of 4E/6E aggregation), all other PGM metals have seen either a flattening or small incremental price declines. The current PGM price environment does not support the viability of new processing developments. Furthermore, the strengthening of the rand against the US dollar during 2024 may allow for cheaper imports of international goods and professional services (which Southern African producers are dependent on) but has a negative basket price impact. The combination of these factors would limit the inherent financial viability of future investment.
Operational factors
Over the past two years, Southern African PGM producers have seen above-inflationary increases in production costs, including but not limited to labour, electricity, utilities and energy. Of the total production costs incurred by PGM refiners, 70% – 75% are mining-related, and 5% – 10% are refining-related. A drawback for PGM producers without internal refining capacity is that concentrate and matte output are sold net of the refining cost and margin. As such, developing internal refining capacity would be a consideration to improve value. Yet, with current market conditions, offtake agreements remain the more feasible option for intermediary PGM producers.
Legislative factors
Numerous acts and laws govern refining operations in South Africa. Developing any refining capacity would be subject to obtaining necessary permission, which may involve Ministerial permission. This can be viewed as an obstacle to the installation of refining capacity. Ensuring legislative compliance requires adequate legal advice throughout all stages of development, which is expensive.

The existing smelter and refining capacity in South Africa is sufficient to cater to current global demand for PGMs. The current operating environment does not necessitate any new local capacity.

Creating a mining sector that will be sustainable beyond 2050

"*If it is not grown, it is mined* " is a phrase that reminds us of the critical role mining and the associated minerals and metals play in the modern world. From the vehicles that transport us and our products to our homes and the screen you may be reading this on, mining will continue to play an essential role in our future economy. However, while many mining companies have been around for decades, they will need to unlock the new opportunities that the economy of 2050 brings to optimise their relevance and profitability.

Mining is a significant contributor to South Africa's economy.

The mining sector in South Africa is a major driver of the economy and sustains millions of livelihoods through its products, day-to-day operational expenses and the employment of thousands of people. The table below demonstrates the economic impact of the sector in 2023.

Quantified economic impact of the mining sector in South Africa for 2023

South Africa: 2023	Direct impact	Indirect impact	Induced impact	Total impact
Mining sales (R'bn)	806			
Impact on GDP (R'bn)	425	292	393	1,110
Contribution to GDP (R'bn)				4,632
Contribution to GDP (%)				24%
Impact on jobs (thousands)	472	472	660	1,604
Impact on tax revenue (R'bn)	90	14	204	308
Impact on CO_2e (R'bn)	1	10	18	29

Source: PwC's Strategy& analysis from Social Accounting Matrix for South Africa

While mining can be seen to have a positive economic impact, the sector also has a complex relationship with the environment and society. Mining in today's economy can still be resource-intensive and polluting, which creates increased pressure on finite resources and keeps a negative spotlight on the sector. This is a dilemma when one considers the views captured in the annual World Economic Forum (WEF) Global Risk Report publications, Global Biodiversity Outlook series and more regarding the stress on our natural and social systems. Coupled with the views of regulators, investors and customers as to what they need and expect from responsible and inclusive businesses, no sector, including mining, can afford to be complacent or focus on minimum requirements.

Everything points to businesses across all sectors taking stock of progress on their obligations and of the expectations of key stakeholders and making additional transformative steps towards their future. What will the mining sector need to look like in the future? Here are a few possibilities:

Avoiding 'carbon emissions tunnel vision' within a sustainability journey

South African mining companies are very aware of the risks associated with climate change, and this issue features among the top ten risks for all mining companies we selected to assess for this research. However, there are also significant opportunities in the new economy that mining companies willing to embrace diversification into minerals can unlock. These include commodities needed in the green transition, such as battery minerals like PGMs for hydrogen fuel cells. Increasingly, we see mining companies including these commodities in their portfolios.

Then, while climate change tends to take centre stage from a sustainability strategy perspective, other considerations need equal attention, such as reducing dependencies for employees and surrounding communities (including on infrastructure and its maintenance and skills of the future). But staying with an environmental focus, there is significant untapped value that mining companies could unlock from circularity and biodiversity.

How are mining companies understanding and seizing opportunities related to their dependencies and impact on these environmental drivers? To explore this, we reviewed the disclosures of ten South African mining companies to understand their approach to biodiversity and circularity within their operations. The table below categorises the companies based on the content of their sustainability reporting.

How SA's leading mining companies are incorporating emerging sustainability practices

Sustainability component	Absent	Mentioned	Included as a specific focus	Leading 'good practice'
Biodiversity	0	2	4	4
Circularity	2	4	4	0

Sources: 2023 integrated annual reports of ten listed South African mining companies

Biodiversity is a natural link where mining can derive future value.

We found that all mining companies speak to their relationship with biodiversity. However, most cover foundational elements like invasive clearing, offsets, and species protection, which are all necessary for site-level compliance. These activities are often closely tied to regulatory requirements within Environmental Management Programmes (EMPrs). Most mining companies have not holistically assessed their impacts or how they depend on nature's goods and services, including biodiversity. Nonetheless, some leading mining companies go further and are establishing stretch goals such as targets around incorporating biodiversity into their community partnerships and value chains and focusing on how they can halt and reverse nature loss and how they can have a net positive environmental impact for themselves and the surrounding areas through biodiversity practices (see the accompanying Biodiversity Box for examples).

Biodiversity

Examples of how leading South African mining companies are maturing their response to nature (risk and opportunity)

Harmony Gold

To cater for the relocation of their Free State tailings storage facility (TSF) and to protect sensitive ecological areas, Harmony Mines is rerouting its Nooitgedacht TSF pipeline to preserve biodiversity.

Impala Platinum

Implats is ranked in the top ten by the Biodiversity Disclosure Project (BDP) for its incorporation of biodiversity mainstreaming. The entity has also found that their alkaline tailings are soil-forming substrates and is utilising them to revegetate disturbed areas.

AngloGold Ashanti

AGA has recognised a new era of biodiversity reporting and the influence of frameworks such as the Taskforce for Nature-related Financial Disclosure (TNFD). The mining house is also committed to no net loss in biodiversity because of operations in relation to a 2020 baseline. AngloGold also collaborated in developing the new International Council on Mining and Metals (ICMM) Nature Position Statement, launched in January 2024.

Kumba Iron Ore

Kumba's leadership in biodiversity mainstreaming was recognised in EWT's Biodiversity Disclosure Project for demonstrating strong management of biodiversity issues. Kumba also received the top score in the Endangered Wildlife Trust's (EWT's) third annual Biodiversity Disclosure Project (BDP) report.

Circularity thinking can keep mining companies relevant

Circularity fundamentally centres around resource scarcity and minimising waste and negative environmental impacts. Most leading mining companies in South Africa mention circularity or responsible sourcing in their disclosures; however, their practical response to this issue is still being developed. Sustainable mining plans span the three dimensions of ESG (environmental, social and governance) and aspire to deliver net-positive impacts over and beyond the life cycle of the operations involved. Leading plans articulate how mines can enhance their environmental footprints by incorporating circularity to minimise their effects on ecosystems and communities. This is mainly limited to their operational boundaries and not yet their value chain (to unlock upstream and downstream benefits).

Our analysis of their sustainability reporting finds South African mining companies exploring circularity primarily through mineral reclamation from their mine tailings. However, some aim to divert all their non-mineral waste from landfills through self-sustaining circular economy initiatives. The push to lessen the sector's impact on ecosystems and biodiversity has revived concepts like urban mining and energised the role of diversification in responding to adverse market conditions.

DRDGOLD is one of the first South African companies to reprocess tailings to obtain minerals. In 2024, the group produced 5,002 kg of gold worth nearly R6,239m. Another South African diversified mining company has invested in an intelligent refining business and is looking to refine waste material into new revenue streams, essentially unlocking a new form of mining, but not of virgin materials, which are becoming more expensive to mine in South Africa due to rising input costs.

Securing a future 'right to win' with sustainability-related parameters and capabilities

Based on our analysis of the maturity of South African companies in forward-looking sustainability thinking, we believe a focus on three key actions can unlock long-term success:

Recognise the value in diversified business models

While we have spoken to mining companies diversifying into new minerals, mining companies developing capabilities that complement their mining activities can unlock further value. Mining companies can leverage their existing capabilities — such as land management through rehabilitation and workforce upskilling — to position themselves for new revenue-generating businesses in areas like agriculture, energy and water, as well as pursuing mergers and acquisitions and inorganic growth.

Unlock the potential of scale and reinvention

Mining companies are typically companies of scale — they manage vast tracts of land, employ large numbers of people, and are often embedded within established communities. This means they can make a considerable impact through maturing and innovating their efforts on social and nature-positive solutions, all of which have far-reaching knock-on benefits. These could be impactful enough to help us leapfrog into a 'new' and more competitive local economy. For example, a mining company focusing on non-traditional mining skills (aligned to future skills such as data technicians) can upskill its employees and surrounding community using current training methods/infrastructure and begin to seed new businesses and value chains.

Leverage collaboration to drive progress

Mining operations are inherently positioned to work with a cross-cutting range of stakeholders, including interested and affected communities, civil society organisations, spheres of government and surrounding mine operations. They have developed stakeholder management capabilities to remain effective amid this complexity. As collaboration is vital to achieving complex sustainability-related goals, focusing these capabilities on forward-looking value drivers for the mining sector, and those sectors to which it connects, would support and accelerate progress toward addressing key systemic risks and opportunities.

Digging deeper: Navigating the global tax landscape in mining expansion

South Africa's mining sector is ever-evolving and there are some exciting investment opportunities abroad for South African-based mining companies.

When investing abroad, one of the factors to consider is taxation and how the potential investment's overall tax burden will impact returns and the overall risk profile. The international tax landscape continues to change significantly — a notable recent development being the introduction of Pillar Two (discussed later in this article). However, when a mining group headquartered in South Africa (SA) is looking to grow beyond SA, it is vital to seek a comprehensive view of the tax implications. Below, we highlight a few of the significant considerations.

Tax residency

For SA tax purposes, a company is considered tax resident in SA if its place of effective management ("PoEM"), is situated in SA, regardless of the place of incorporation. This could mean that the profits of a foreign company could be taxed in the foreign country where the mining operation is located (due to such profits being sourced in that jurisdiction) and then subject to tax again in SA.

From a legal perspective, the meaning of the term 'place of effective management' could be tricky as the term is not defined in the Income Tax Act.[1] The South African Revenue Service ("SARS"), however, adopts the globally accepted view [2] that a company's PoEM is "the place where key management and commercial decisions necessary for the conduct of its business as a whole are in substance made.". While this might seem straightforward, numerous factors influence determining a company's PoEM. In practice, it is common for an SA holding company to want to retain control by making key commercial and strategic decisions for the foreign subsidiary — but this comes with a significant PoEM risk.

Where a company's PoEM is in SA, the wording of the double taxation agreement (DTA) between SA and the country in which the foreign company was incorporated (if any) should also be considered. In the past, the DTA would usually allocate exclusive residency to the jurisdiction in which its PoEM is located. However, this may now have changed since SA has ratified the Organisation for Economic Development's (OECD) Multilateral Instrument (MLI), which provides that exclusive residency in terms of Covered Tax Agreements (CTA) is determined through mutual agreement between both jurisdictions' 'Competent Authorities'. Importantly and punitively, all benefits from the DTA (such as reduced withholding tax rates on dividends or interest) are suspended while the Competent Authorities settle the exclusive residency discussions. (The MLI-driven change from the PoEM test to the 'mutual agreement' test for the residency tie-break does not apply to all SA's DTAs, so the question must be assessed on a jurisdiction-by-jurisdiction basis.)

In certain instances where an SA taxpayer pays taxes within a foreign jurisdiction and SA on the same income, there are tax relief measures contained in SA tax legislation.

Takeaway: Where an SA headquartered mining group establishes a foreign subsidiary, the true tax residency of that subsidiary should always be considered. It is important to consider the location of key decision-makers and who is appointed to the subsidiary board, as this could impact the quantum of taxes paid and compliance (i.e., registering for taxes in the correct jurisdiction).

Holding company jurisdictions

In the past, it was common for intermediary holding companies (IHCs) to hold the group's foreign mining companies in tax-advantaged jurisdictions — jurisdictions such as the British Virgin Islands were a common location for such IHCs.

Given the MLI, tax benefits arising from a CTA may be lost if one of the principal purposes of using the jurisdiction in question was to obtain a tax benefit ('the principal purpose test'). The scope of the principal purpose test is very wide, and the tax benefit does not have to be the sole or main reason for using the said jurisdiction; rather, it is one of the principal purposes.

Takeaway: SA-headquartered mining groups are cautioned to ensure their overall foreign structures have a commercial rationale and are suitably capacitated to carry out their functions.

Controlled foreign companies

A foreign company will constitute a controlled foreign company ("CFC") where SA residents control more than 50% of the participation or voting rights. A CFC attracts additional tax considerations from an SA perspective.

The taxation of CFCs is an established practice followed in various countries worldwide. SA's CFC laws treat the foreign company as a tax resident in SA for certain sections of the Income Tax Act3 to calculate a 'net income' (subject to certain exclusions and exemptions), which is then taxable in SA and colloquially called imputed income. There are, however, certain exclusions and exemptions, the two main ones being:

- The foreign business establishment (FBE) exemption disregards income attributable to a fixed place of business located in a foreign country for a period not less than a year, provided it meets certain other physical substance requirements. This exemption was recently subject to judicial consideration by both SA's Supreme Court of Appeal ("SCA") and the Constitutional Court. The SCA considered that a CFC cannot rely on the FBE exemption if it outsources certain primary business activities. The Constitutional Court confirmed that the primary operations of a CFC should be determined based on the business model of that CFC (as selected by the CFC in question), and it should not be precluded from relying on the FBE exemption where it outsources certain activities. It is worth noting that any prospecting or exploration operations for natural resources and mining or production operations related to them are automatically considered an FBE.
- The High Tax Exemption (HTE) deems the net income of a CFC to be zero, where the aggregate amount of foreign taxes makes up at least 67.5% of the normal tax that would have been payable had the CFC been an SA tax resident.

Takeaway: In light of the recent SCA and Constitutional Court cases, CFC legislation is a key focus area for SARS, and a high degree of care should be exercised in this regard to the extent that these CFCs are not conducting prospecting, exploration, mining, or production of natural resources. As with the latter, an FBE exemption will apply, so no imputed income should arise.

Transfer pricing

International expansion requires consideration of how operations are supported and funded. Key to funding decisions between connected persons is the SA transfer pricing rules, which are based on the 'arm's length' concept and apply to both the quantum of debt and interest charged thereon.

Where funding is obtained from a bank, a parent guarantee will usually be required. Guarantees are notoriously difficult to benchmark and establishing a price in line with SA's transfer pricing rules is difficult.

SA's exchange control system regulates the flow of funds into and out of the country. SA Reserve Bank approval is required for SA-headquartered companies to advance such a loan.

Transfer pricing considerations extend beyond funding arrangements. Other intra-group relationships that are focus areas in the mining industry include corporate support (e.g., management services) and the movement of actual products (e.g., offtake arrangements, marketing agreements and so forth).

Takeaway: Getting transfer pricing wrong can be costly — the non-arm's length portion of a transaction could be subject to a tax of up to 47%. Transfer pricing rules should be considered early on, and any exclusions should be evaluated to determine if they apply.

Pillar Two

The OECD Inclusive Framework, comprising more than 135 countries, agreed to enact a two-pillar solution to address the challenges arising from the digitalisation of the economy.

Under this framework, Pillar One seeks to reallocate more profits to market jurisdictions, essentially where customers are, from where they are currently taxed, which is generally where the productive property or employees reside or decisions are made. Notably, profits from 'extractive activities' are excluded from Pillar One, provided that both a 'product test' and an 'activities test' are satisfied. Currently, the Pillar One rules are still in development and are not yet in force.

Pillar Two, in contrast, has been implemented in South Africa with effect from years commencing on or after 1 January 2024, albeit the legislation is still in draft, and introduces a global minimum effective tax rate (ETR) via a system where multinational enterprises (MNEs) with consolidated revenue over €750m (approximately R15bn) are subject to a minimum ETR of 15% on income arising in each jurisdiction in which they operate.

As mining MNEs seek to expand their global operations, Pillar Two needs to be considered from the outset, lest the new rules have a negative effect on post-acquisition plans. There are also certain transitional rules (period starting 30 November 2021) that could affect the ability of a group to integrate and move assets as part of post-acquisition integration.

It is worth noting that although many mining locations have relatively high headline corporate income tax rates (i.e., more than 15%), the prevalence of tax incentives in the mining industry means that the ultimate ETR often drops below 15%. Again, this will need to be assessed on a jurisdiction-by-jurisdiction basis.

The Transitional CbCR Safe Harbour (TSH) is (for now) a short-term measure that, if applicable in a particular jurisdiction, would ensure no top-up tax and exempt an MNE from undertaking detailed calculations, thus significantly reducing its compliance obligations and data requirements.

To meet the TSH, one of three tests would need to be met.

It is expected that for most mining MNEs, any mining operations taking place internationally are likely to fail the *de minimis* test due to the high revenues generated (exceeding the €10m threshold) from mining operations, even though the operations in question may not be profitable (below the €1m threshold). Mining MNEs will, therefore, need to turn to the remaining TSH to seek relief from Pillar Two top-up taxes and the completion of the GLoBE Information Return.

Simplified Effective Tax Rate

While not delving into the mechanics of the Simplified ETR, we highlight two considerations for the mining industry that may have a considerable and unexpected impact:

- Many jurisdictions impose mining royalties on the sales value of minerals. These mineral royalty payments are technically not considered taxes on income but, rather, on revenues and thus do not typically constitute 'Covered Taxes' as defined in the Pillar Two Model Rules. Mining groups will, therefore, be unable to include the impact of mineral royalties paid in their ETR computation and, thus, will not receive any benefit in this regard.
- Most mining jurisdictions around the globe tend to have nominal corporate income tax rates higher than the minimum rate of 15%, reducing any risk of not meeting the threshold. However, many of these jurisdictions often offer generous tax incentives, most often in the form of tax holidays, which can reduce effective tax rates below 15%, at least for a period.

Takeaway: While it is expected that many mining operations around the globe will meet the Simplified ETR, irrespective of mineral royalty payments, careful consideration needs to be given to in-country tax incentives provided and whether these may trigger a jurisdiction failing the Simplified ETR test.

Routine Profits Test

The last TSH Test will likely prove the most useful to mining groups. Where mining operations are conducted, there are often significant personnel costs and capital investment requirements. Under the routine profits test, MNE groups measure profits generated against a percentage of personnel costs and the averaged fixed assets for the year. In substance, the test seeks to remove any entities whose profits are rationally supported by underlying assets and personnel costs, which are likely to include most mining operations.

The risk, however, remains where MNE groups have established marketing and distribution hubs and other profit centres that are not supported by underlying personnel costs and capital investments. Careful consideration must be applied to the remaining TSH to determine if these would provide relief.

Takeaway: While it is expected that many mining operations around the globe will meet the Routine Profits Test, careful consideration needs to be given to marketing and distribution hubs, as well as other established profit centres.

Conclusion

SA-based mining companies seeking to expand their operations abroad need to be aware of the tax implications and challenges that may arise from their investment decisions. The international tax landscape has become more complex and dynamic with the introduction of Pillar Two and the MLI. The existing rules on tax residency, CFCs, transfer pricing and the global shift towards the interconnectedness of tax types also need to be considered. Mining companies should carefully evaluate their foreign structures and operations and seek professional advice to ensure they comply with the relevant tax laws and avoid unnecessary costs and risks.

The Promise of AI in modern mining

Mining and artificial intelligence (AI) have a powerful synergy that will drive the industry's evolution, promising substantial improvements in safety, productivity and innovation, making the sector leaner, cleaner, healthier and safer.

AI has exploded in mainstream technology in the past two years and will soon be embedded in all the applications we use in our lives and work. We have all seen machine learning tools that help us improve our spelling and grammar, and even help to improve our writing.

But how will AI and large language model technology impact mining?

A great deal, it turns out! This is because AI promises to democratise data, allowing people at all levels to access helpful information.

Microsoft's Copilot and other AI tools allow users to chat with their dashboard in natural language. This means anybody can interact with it and create dashboards aligned to their KPIs' text.

Successful implementation of AI requires effective data management, architecture and modelling. This is a benefit in itself, enabling analytics across the whole value chain. In mining, AI can guide the optimal cycle for trucks, minimising distance and diesel use. It can help managers to manage by exception by telling them where a problem lies. It will save mine officials hours by automating reporting and consolidating data sets.

Over and above the time saved, the greatest potential value is the enablement of ideas AI technology will facilitate. A great example is automating mine planning, which, in a few minutes, could undertake economic replanning of multiple operations and multiple pits over a ten-year horizon. Furthermore, extended machine life and ongoing continuous improvement enabled by self-service analytics promise to help mines be competitive.

Perhaps the most compelling use case for AI in labour-intensive conventional underground mining is in predictive safety — where miners can draw on a wide range of data sources to effectively predict and prevent harm to people. AI systems can monitor environmental conditions, equipment performance, and worker activities at the workplace during shifts to identify potential safety hazards and prevent accidents.

Here are some examples of AI Initiatives underway in the mining industry:

- Exploration companies like Kobold are using AI to extrapolate the location of mineral reserves
- Energy consumption analysis identifies patterns in energy use to highlight inefficiencies and determine ways to cut costs.
- AI coordinates the operation of mining trucks and drills, enhancing fleet efficiency and reducing operational costs.
- Predictive maintenance not only reduces downtime but also minimises the risk of accidents caused by equipment malfunctions.

- Machine learning models can predict ore grade in real time, helping optimise the extraction process and reduce waste.
- Robotic sampling reduces human labour and errors by collecting and accurately analysing ore and rock samples.
- AI systems monitor tailings dams to predict their stability.
- AI systems track and analyse environmental data to ensure compliance with regulations.

While the future of AI in mining looks promising, it is not without challenges and risks.

Future reliance on AI systems requires significant investments in technology, data and training today. Accurate AI results are directly related to the quality and architecture of the data. AI-enabling architectures, such as Kimball and Medallion, require changing how we collect, think about and manage data. This impacts many roles in mines, specifically those that provide accurate in-time information.

AI systems require large amounts of quality data to function effectively. Inconsistent, poor-quality or non-timeous data can lead to poor decisions and inefficiencies.

With the appropriate architecture, data governance, and data models in place, AI can increase efficiency, enhance safety, reduce downtime, and improve operations. However, this often comes with concerns about job displacement and resistance to adopting the technology. Mining has to invest in upskilling its workforce to understand the technology and embrace the changes it will bring. This needs to be positioned not as a challenge but as an opportunity for miners to increase their productivity and better reach their performance targets.

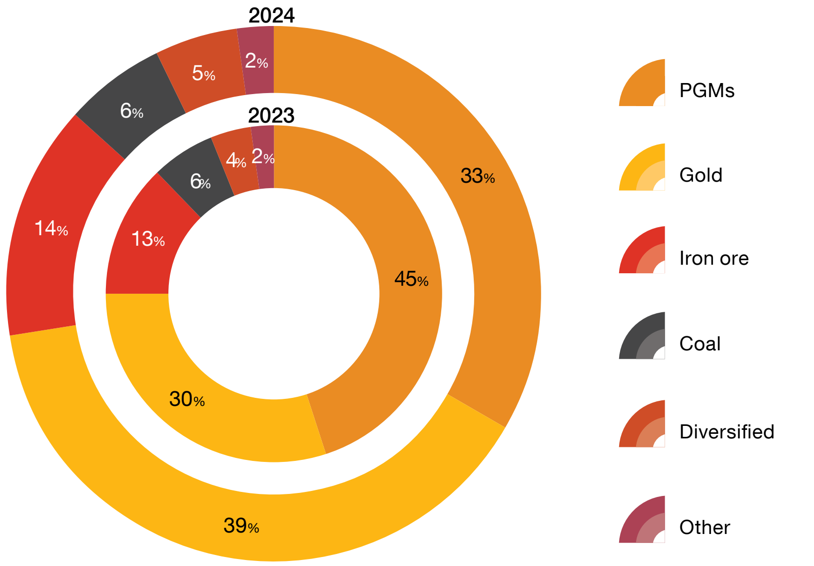
Finally, the transition to AI-driven mining operations will require a cultural shift within the industry. Collaboration between industry players, technology providers, regulatory bodies and the workforce will be crucial to ensuring the successful integration of AI in mining. The reason for this is that without a consistent set of standards, we may be unable to develop the skilled workforce required to deploy these technologies effectively. In light of this, perhaps we should ask whether we need regulation to standardise the approach to AI in mining to make this transition successful.

Finally, the transition to AI-driven mining operations may require a cultural shift within the industry. Collaboration between industry players, technology providers, regulatory bodies and the workforce will be crucial to ensuring the successful integration of AI in mining. Why? Because without a consistent set of standards we may not be able to develop the skilled workforce required to service these technologies. So perhaps we need to ask – do we need regulation to standardise the approach to AI in mining to make this transition successful?

Financial performance

Market capitalisation

Figure 16: Market capitalisation per commodity



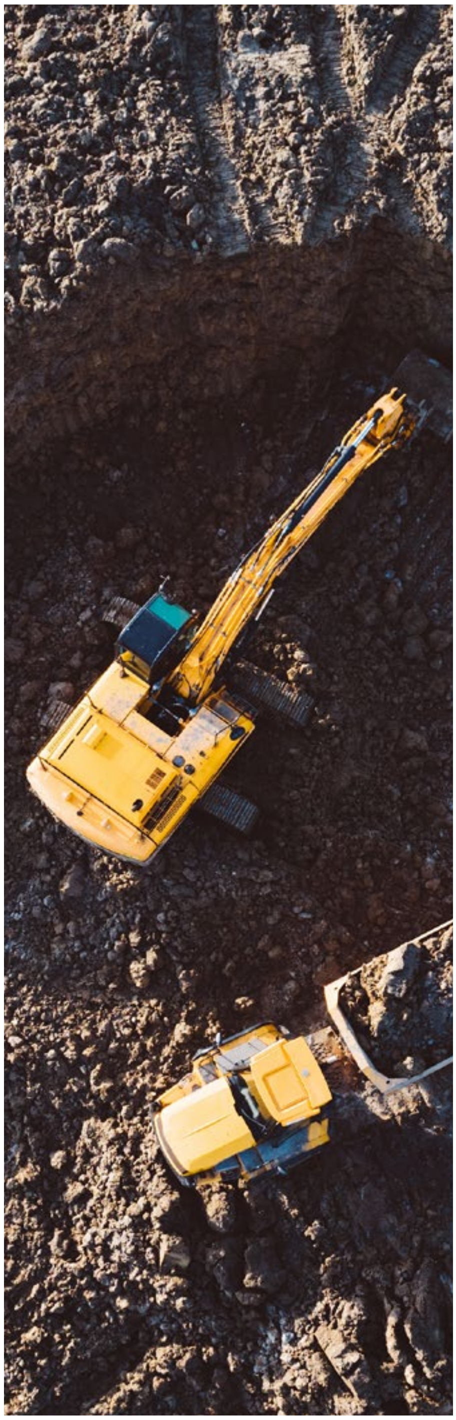
Source: S&P Capital IQ, Iress, PwC analysis

Total market capitalisation decreased to R1,003bn from R1,087bn.

This total is an R84m (8%) year-on-year (YOY) decrease from 2023, mainly attributable to the decrease in market capitalisation of companies within the PGM sector. The decline was offset by increased market capitalisation of companies within the Gold sector.

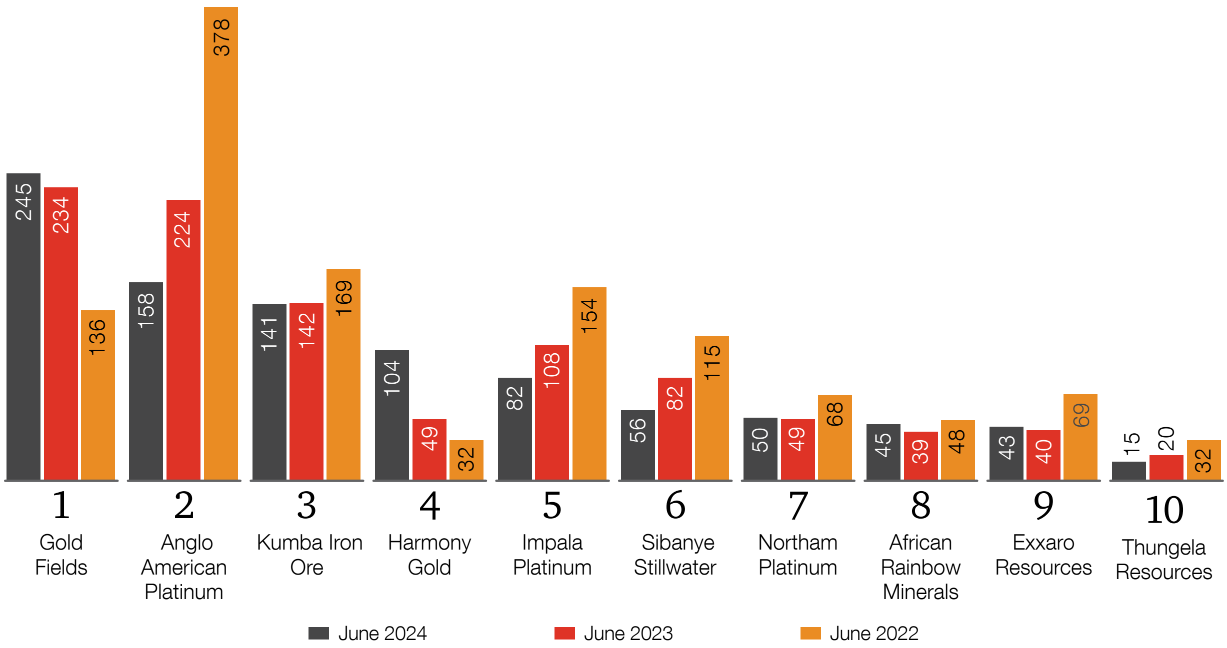
PGMs and Gold accounted for 72% of the market capitalisation (2022: 75%) of the companies analysed this year.

The market capitalisation of PGM companies decreased by 31%. This is reflected in Anglo American Platinum losing a further 30% — more than R66bn — of its market capitalisation due to continued decreases in commodity prices. Royal Bafokeng Platinum (RBPlat) was acquired by Impala Platinum Holdings (Implats) and delisted from the JSE in September 2023. RBPlat had a market capitalisation of R37bn. The market capitalisation of Implats decreased by R26.5bn despite issuing share capital for the RBPlats acquisition.



The Gold sector saw an increase of 19% in market capitalisation. As mentioned, gold has been one of the best-performing commodities over the past year, as the metal regained its status as a safe-haven asset in times of uncertainty. The increase is primarily attributable to the rise in market capitalisation of Harmony Gold, which grew by 113% or R55bn YOY. Gold Fields increased by 5% or R11bn YOY.

Figure 17: Market capitalisation of the top ten companies, 30 June 2024 (R'bn)



Source: S&P Capital IQ, Iress, PwC analysis

The composition of the top ten companies remained consistent with the prior year. The only changes noted in the top ten are RBPlat, which delisted, and the addition of Thungela Resources in tenth position. Rankings of the top ten companies mostly remained consistent with the previous year. The biggest climber was Harmony Gold, which moved from sixth to fourth place.

The top three companies are Gold Fields, Anglo American Platinum and Kumba, which held the same positions in 2023.

Revenue

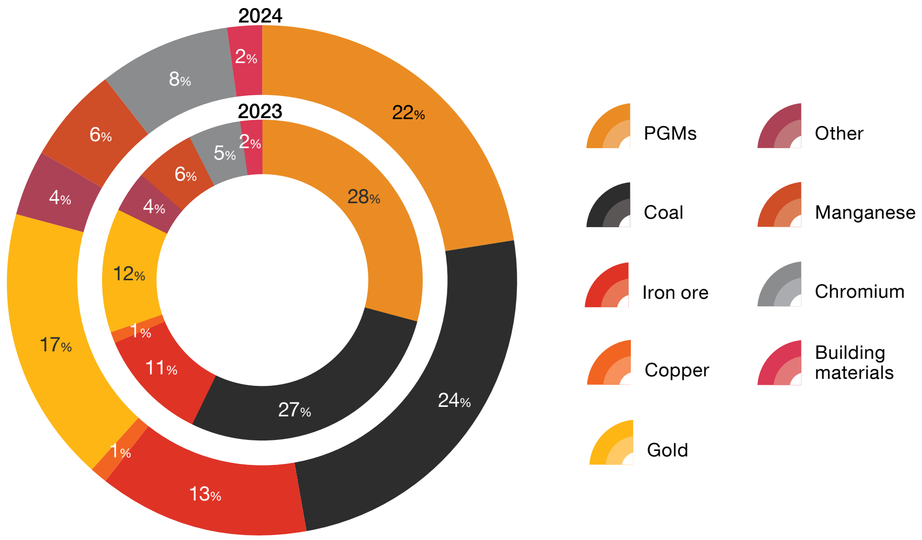
A 5% decrease in revenue in rand terms occurred between June 2023 and June 2024. PGMs experienced the most significant revenue decline of 26%.

Coal revenue fell by 14% between June 2023 and June 2024. This trend mirrors the 12% decrease between June 2022 and June 2023, confirming a consistent downward trajectory over the past two years.

In the first half of 2024, coal revenue from European customers continued to decline as a result of low demand due to high coal inventory volumes and the use of alternative energy sources. This resulted in a decrease in the API4 RBCT price for coal.

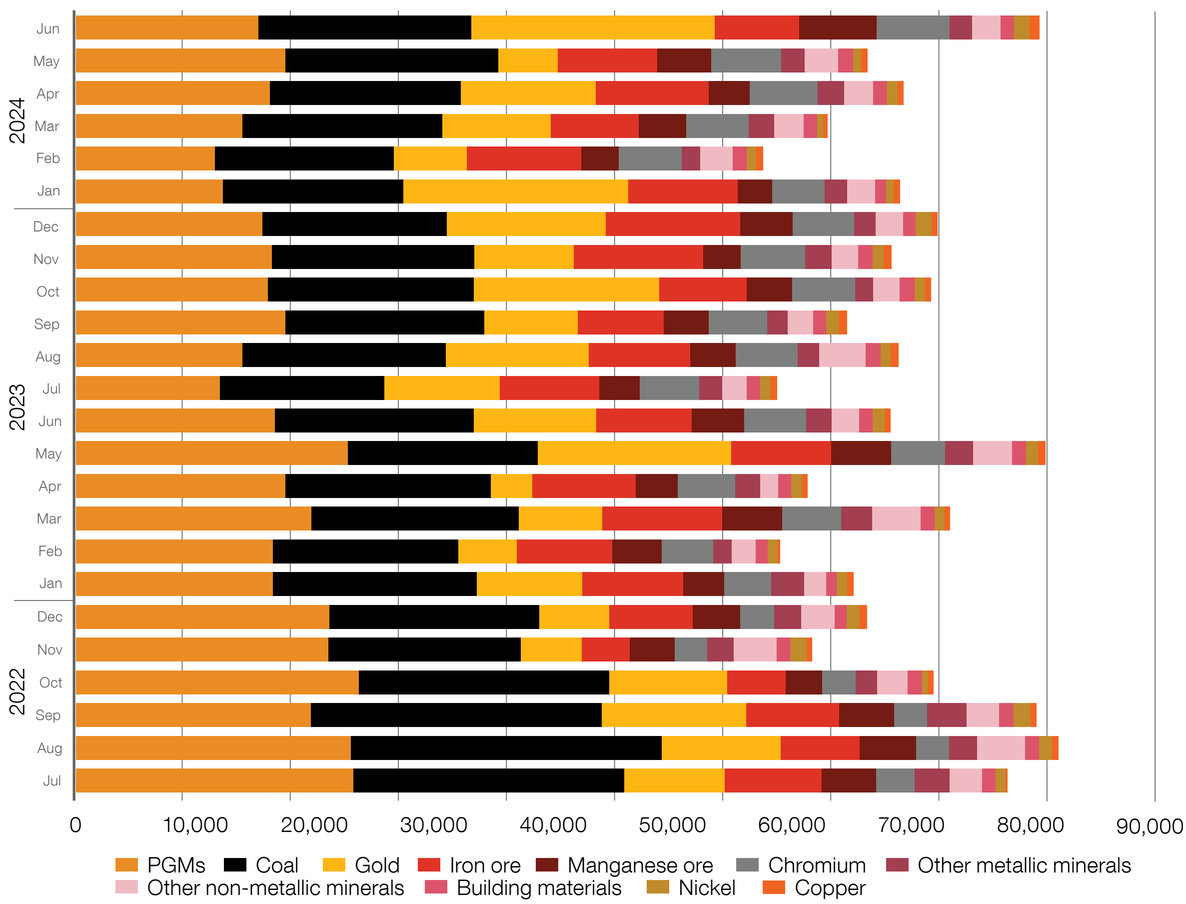
Chromium ore experienced a 41% price increase between 2023 and 2024 and as a by product for PGM mining is growing in relevance.

Figure 18: Percentage mining revenue per commodity



Source: Stats SA, PwC analysis

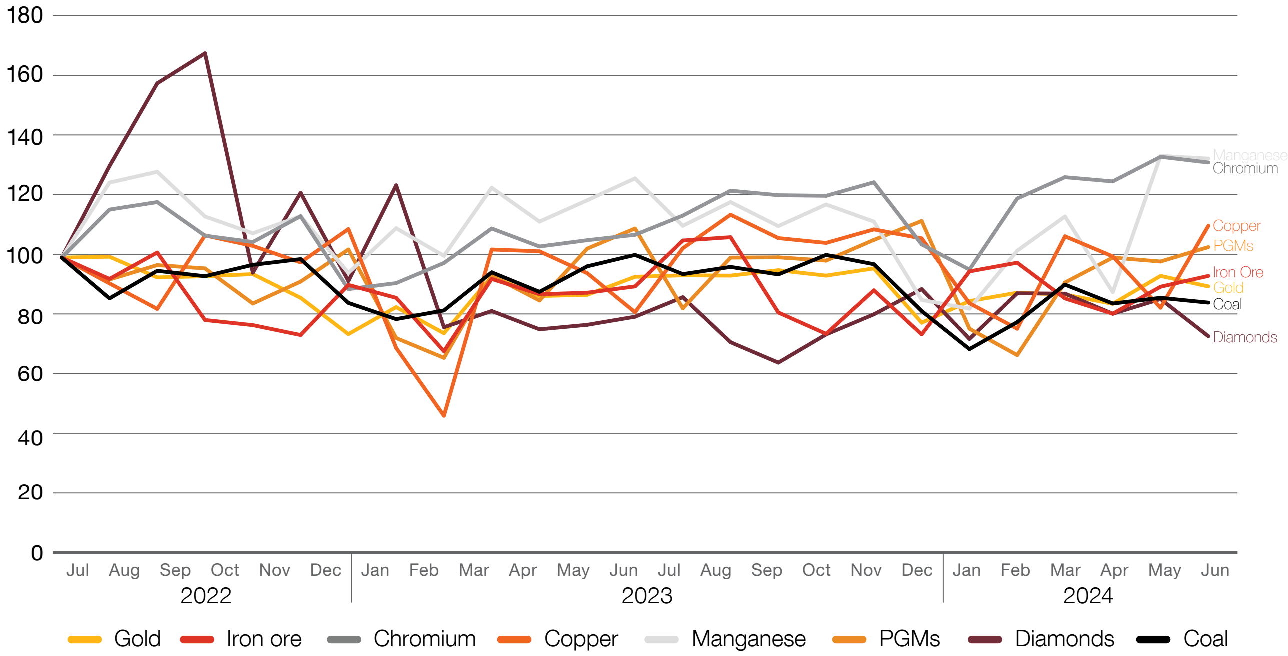
Figure 19: Monthly mining revenue per commodity



Source: Stats SA, PwC analysis

Production

Figure 20: Indexed monthly production per commodity



Source: Stats SA, PwC analysis

Production volumes continued to decrease in 2024. In June 2024, there was a 3.5% decrease in mining production, with Gold and PGMs being the most significant contributors.

Gold declined 12.6% due to depleting gold reserves and the high cost of mining in South Africa. PGMs saw a 5.8% reduction in production in response to low commodity prices.

Despite the decrease in total mining production, copper experienced a 35.2% production increase.

Income statement

Income statement	Current year Rbn	Prior year Rbn	Difference Rbn	% change
Revenue from ordinary activities	582	647	(66)	(10%)
Operating expenses	(391)	(354)	(37)	10%
Metal purchases	(48)	(79)	31	(40%)
EBITDA	**143**	**214**	**(71)**	**(33%)**
Impairment charge	(32)	(24)	(9)	36%
Depreciation charge	(37)	(34)	(3)	10%
Profit/(loss) before interest and tax	**73**	**156**	**(83)**	**(53%)**
Net interest	1	0	2	(450%)
Tax expense	(25)	(48)	23	(48%)
Equity accounted income	9	14	(4)	(32%)
Discontinued operations	0	0	0	0%
Net profit	**59**	**122**	**(63)**	**(52%)**
EBITDA margin	**25%**	**33%**	**(9%)**	

Source: PwC analysis

Revenue

	Current year Rbn	Prior year Rbn	Difference Rbn	% change
Gold	108	92	16	18%
PGMs	284	370	(86)	(23%)
Other mining	34	34	0	(1%)
Iron Ore	84	69	15	21%
Coal	72	82	(10)	(12%)
Total	**582**	**647**	**(66)**	**(10%)**

Source: PwC analysis, SA Mine companies

Note that PGM revenue for the SA Mine PGM companies includes by product revenue here and Coal revenue is disproportionately low compared to the total coal output due to the relative low number of listed coal companies.

Most sectors' revenue decreased YOY except for the Iron Ore and Gold sectors, which increased. The Platinum sector remained the biggest contributor to revenue despite a significant decrease in PGM basket prices. Revenue in the Gold sector increased by 18% thanks to the higher gold price despite lower production.

The Iron Ore sector saw a 21% increase in revenue YOY on the back of higher FOB iron prices in the second half of 2023.

Impairments

Impairment charges during the current year increased by R9bn to R32bn. The largest portion of these charges relate to the PGM sector and were driven mainly by decreased consensus pricing and changes in mine life.

Impala Platinum recognised impairment charges of R21bn for the Impala Rustenburg mining operation and the Lac des Iles mine in Canada. Sibanye Stillwater recognised impairments of R3.4bn relating to its PGM and gold operations. African Rainbow Minerals noted impairment losses on property, plant and equipment at its Two Rivers and Modikwa mines, amounting to R2.7bn and R0.6bn, respectively. Harmony Gold recorded an impairment loss of R2.7bn on the Target North Project due to new preliminary mineral resource estimates received by management.

EBITDA

The average EBITDA margin of the mining companies included in this analysis was 25%, a 9% decrease from the previous period. The reduction in revenue and increase in costs drove this. Operating expenses, excluding metal purchases, increased by 10%, reflecting above-inflation increases in the costs of energy (electricity and fuel), chemicals and labour. Most, if not all, mining companies are focussing on cost reduction/optimisation. This is evidenced in retrenchments and other cost-cutting measures that have been reported on. The significant decrease in EBITDA will impact capital allocation decisions for all entities.

EBITDA	Current year R' billions	Prior year R' billions	Difference R' billions	% change	EBITDA Margin Current Year	EBITDA Margin Prior Year
Gold	27	22	5	24%	25%	24%
PGM's	55	115	(60)	(52%)	19%	31%
Iron Ore	41	34	7	22%	49%	49%
Other Mining	5	10	(6)	(55%)	15%	29%
Coal	15	33	(18)	(55%)	21%	40%
Total	**143**	**214**	**(71)**	**(33%)**	**25%**	**33%**

Source: PwC analysis

Net profit/(loss)

Net profit decreased by 52%, a R63bn decrease. This is a result of the decline in EBITDA, which was offset by a reduction in tax expenses of R23bn from the previous year. The aggregate tax expense for the mining companies was R25bn, with an effective tax rate of 30%. Another reason for the significant decrease in net profit is the impairment charges recorded.

Cashflow statement

Cash flows	Current year Rbn	Prior year Rbn	Difference Rbn	% Change
Cash generated from operations before working capital changes	171	247	(76)	(31%)
Working capital changes	1	3	(2)	0%
Cash generated from operations after working capital changes	**172**	**250**	**(78)**	**(31%)**
Other	2	7	(5)	(68%)
Income taxes paid	(31)	(51)	20	(39%)
Net operating cash flows	**143**	**206**	**(63)**	**(31%)**
Purchases of property, plant and equipment	(121)	(112)	(10)	9%
Free cash flow	**22**	**95**	**(73)**	**(77%)**
Cash flows related to other investing activities				
Purchase of investments	(21)	(15)	(6)	40%
Sale of investments	14	7	7	100%
Other	5	6	(1)	(19%)
Net other investing cash flows	**(2)**	**(2)**	**0**	**0%**
Cash flows related to financing activities				
Proceeds from ordinary shares issued	0	0	0	200%
Proceeds from interest-bearing liabilities	44	39	5	13%
Repayment of interest bearing liabilities	(31)	(38)	7	(19%)
Distribution to shareholders	(58)	(112)	54	(48%)
Other	(7)	(9)	2	(19%)
Net financing cash flows	**(52)**	**(120)**	**68**	**(57%)**
Net increase/(decrease) in cash and cash equivalents	**(32)**	**(30)**	**(2)**	**7%**

Source: PwC analysis

Free cash flows

Free cash flow is defined as cash from operating activities less purchase of property, plant and equipment (PPE). It provides an indication of a company's ability to settle debt, pay dividends and fund acquisitions. Free cash flows have decreased from the prior year by 77% due to the decrease in profits. A number of mining companies have signalled a slowdown in capital expenditure to preserve cash in this challenging price environment. Taxes paid decreased as profits decreased.

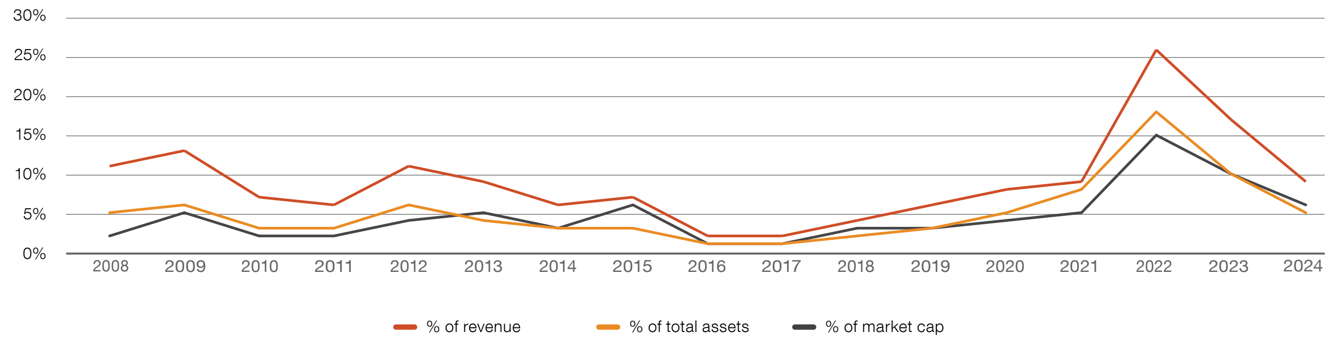
Other investing cash flows

The purchase of investments increased from the prior period by R6bn, and the proceeds from the sale of investments increased by R7bn. The increase in proceeds primarily reflects the cash received by Northam Holdings from the sale of its investment in Royal Bafokeng Platinum.

Distribution to shareholders

Dividends are generally paid after the financial year end. In the current year, we saw distribution to shareholders decline to R58bn (2023: R112bn) on the back of reduced cash flows. Decreases in distributions to shareholders were primarily in the PGM sector.

Figure 21: Dividend yield



Source: PwC analysis

Financial position

Financial position	Current Year Rbn	Prior Year Rbn	Difference Rbn	% change
Current assets				
Cash and cash equivalents	133	172	(39)	(23%)
Inventories	119	123	(4)	(3%)
Receivables and other current assets	88	95	(7)	(7%)
Total current assets	**340**	**390**	**(50)**	**(13%)**
Non-current assets				
Mining and production assets	563	589	(26)	(4%)
Investments	118	132	(14)	(11%)
Other Non-Current Assets	52	50	2	4%
Total non-current assets	**733**	**771**	**(38)**	**(5%)**
Total assets	**1,073**	**1161**	**(88)**	**(8%)**
Share capital & reserves				
Share capital and reserves	659	736	(77)	(11%)
Total equity	**659**	**736**	**(77)**	**(11%)**
Current liabilities				
Accounts payable and other liabilities	140	149	(9)	(6%)
Interest bearing liabilities	25	26	(1)	(4%)
Total current liabilities	**165**	**175**	**(10)**	**(6%)**
Non-current liabilities			-	0%
Interest bearing liabilities	85	74	11	15%
Deferred taxation liabilities	89	99	(10)	(10%)
Other non-current liabilities	75	77	(2)	(3%)
Total non-current liabilities	**249**	**250**	**(1)**	**0%**
Total liabilities	**414**	**425**	**(11)**	**(3%)**
Total equity and liabilities	**1,073**	**1,161**	**(88)**	**(8%)**

Source: PwC analysis

Key ratios

The financial and liquidity position of the industry slightly weakened but remained solid. The most significant decrease is in the net borrowing ratio, where cash has decreased due to commodity prices being under pressure. Several mining companies increased their debt because of low commodity prices.

Key ratios	Current year	Prior year
Market capitalisation to net asset value (times)	1.5	1.5
Net borrowing (R'bn)	(23)	(72)
Gearing percentage	(3%)	(9%)
Solvency ratio (times)	2.6	2.7
Current ratio (times)	2.1	2.2
Acid ratio (times)	1.3	1.5
Net borrowings to EBITDA	(0.2)	(0.3)

Source: PwC analysis

Creating value sustainably

South Africa's economic situation continues to underscore the mining industry's vital role in creating value for stakeholders, supporting community development and laying a stable foundation for local economic growth.

Over the past 12 months, the industry has faced several challenges, including pressured commodity prices, logistics constraints, strained labour relations and inconsistent energy supplies due to intermittent power outages impacting mining operations. This was clearly evidenced in the financial performance of the industry as a whole. Distributions to shareholders continued to decrease with gold miners' dividends partly offsetting the significant drop by platinum producers. On the back of lower PGM prices, distributions from Anglo American Platinum and Impala Platinum decreased by more than 80%. The mining companies kept to their capital commitments, with capital expenditure increasing from 39% in 2023 to 53% in 2024. Employees continued to receive a significant share of the value, with an even greater impact due to the high dependency rate on each salaried individual in South Africa.

The value distribution to governments has reduced in the current period due to decreased profitability of the mines. It is important to note that this value does not include the benefit of other indirect taxes contributed by the mining industry.

Share of value added	2024	2023
Employees	31%	21%
Employee taxes	7%	5%
Direct taxes	14%	18%
Mining royalties	4%	4%
Capital expenditure	53%	39%
Return to lenders	6%	3%
Return to shareholders	25%	39%
Community investment	2%	2%
Funds (utilised)/retained	(41%)	(30%)

Source: PwC analysis

Ten-year summary

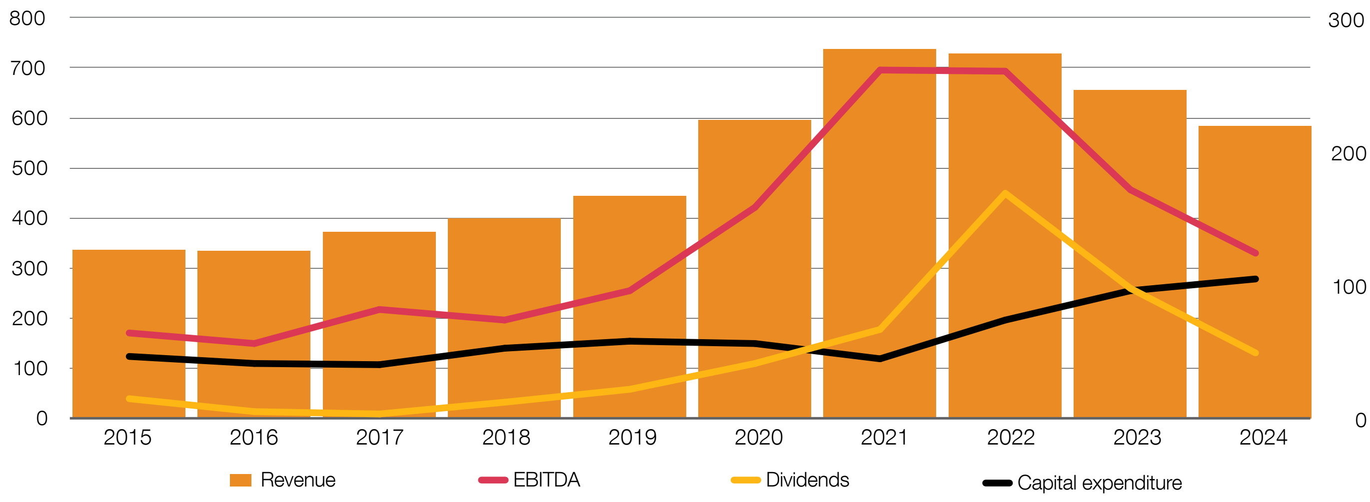
The information included below differs from that in the rest of our analysis as it consists of the aggregated results of those top companies reported on in previous editions of *SA Mine*.

Ten-year summary of financial information (Rbn)

Rbn	2024	2023	2022	2021	2020	2019	2018	2017	2016	2015
Market capitalisation	**1,003**	**1,087**	**1,299**	**1,471**	**1280**	**884**	**482**	**420**	**560**	**414**
Aggregated income statement										
Revenue	582	654	726	735	594	443	398	371	333	335
EBITDA	143	197	298	299	182	111	86	95	66	75
Impairment charges	(32)	(23)	5	10	(6)	(22)	(46)	(22)	(60)	(24)
Net finance costs	1	(2)	(2)	(5)	(11)	(11)	(11)	(10)	(10)	(7)
Income tax expense	(25)	(48)	(72)	(88)	(37)	(15)	(9)	(11)	(2)	(8)
Net (loss)/profit	59	108	206	208	88	32	-11	17	-46	2
EBITDA margin	25%	30%	41%	41%	31%	25%	22%	26%	20%	22%
Cash flow from operating activities										
Cash flow from operating activities	143	211	281	255	153	100	79	83	69	62
Total capital expenditure	121	111	86	53	66	68	62	48	49	55
Free cash flow	22	100	195	202	87	32	17	35	20	7
Other investing cash flows	(2)	(6)	(17)	6	-4	4	(20)	(8)	4	3
Dividends paid	(58)	(113)	(194)	(78)	(49)	(27)	(16)	(6)	(8)	(19)
Other financing cash flows	6	9	2	(2)	(14)	(6)	27	(8)	(7)	11
Aggregated balance sheet										
Cash	133	172	179	194	133	70	65	58	46	38
Property, plant and equipment	563	584	509	455	494	430	406	403	414	425
Total assets	**1,073**	**1,156**	**1,059**	**996**	**956**	**780**	**717**	**692**	**709**	**724**
Total liabilities	**414**	**421**	**222**	**375**	**465**	**360**	**325**	**296**	**311**	**293**
Total equity	**659**	**735**	**682**	**621**	**491**	**420**	**392**	**395**	**398**	**431**

Source: PwC analysis

Figure 22: Ten-year historical financial information (Rbn)



Source: PwC analysis

About this publication

Basis for compiling the report

The results aggregated in this report have been sourced from the latest publicly available information, primarily annual reports and financial reports available to shareholders. We aggregated the financial results of mining companies with a listing on a stock exchange and whose primary operations are in South Africa for the financial year ends to 30 June 2024. We used a cut-off market capitalisation of R200m and excluded all companies with suspended listings. All companies with audited results released and their comparatives up until 13 September 2024 have been captured.

Companies analysed in this publication have different year ends and report under different accounting regimes. Information has been aggregated for the individual companies, and no adjustments have been made to consider different reporting requirements. As far as possible, we have aligned the financial results of reporters to be as at and for the year ended 30 June 2024. For companies that do not have June year ends, we added and deducted reviewed results to reflect the comparable 12-month period. We have also considered any restatements and adjustments to the prior period, as reflected in the latest published results.

All currency figures are reported in South African rand, except where specifically stated otherwise. The results of companies that report in currencies other than the rand have been translated at the average rand exchange rate for the financial year, with balance sheet items translated at the closing rand exchange rate.

Our selection criteria excluded global mining companies Anglo American PLC, BHP, South32 and Glencore PLC. Although these companies have a significant South African footprint, their global exposure and size mean that their performance does not necessarily reflect trends in the South African mining environment. While many of the entities analysed also have international exposure, the bulk of their operations are in Africa.

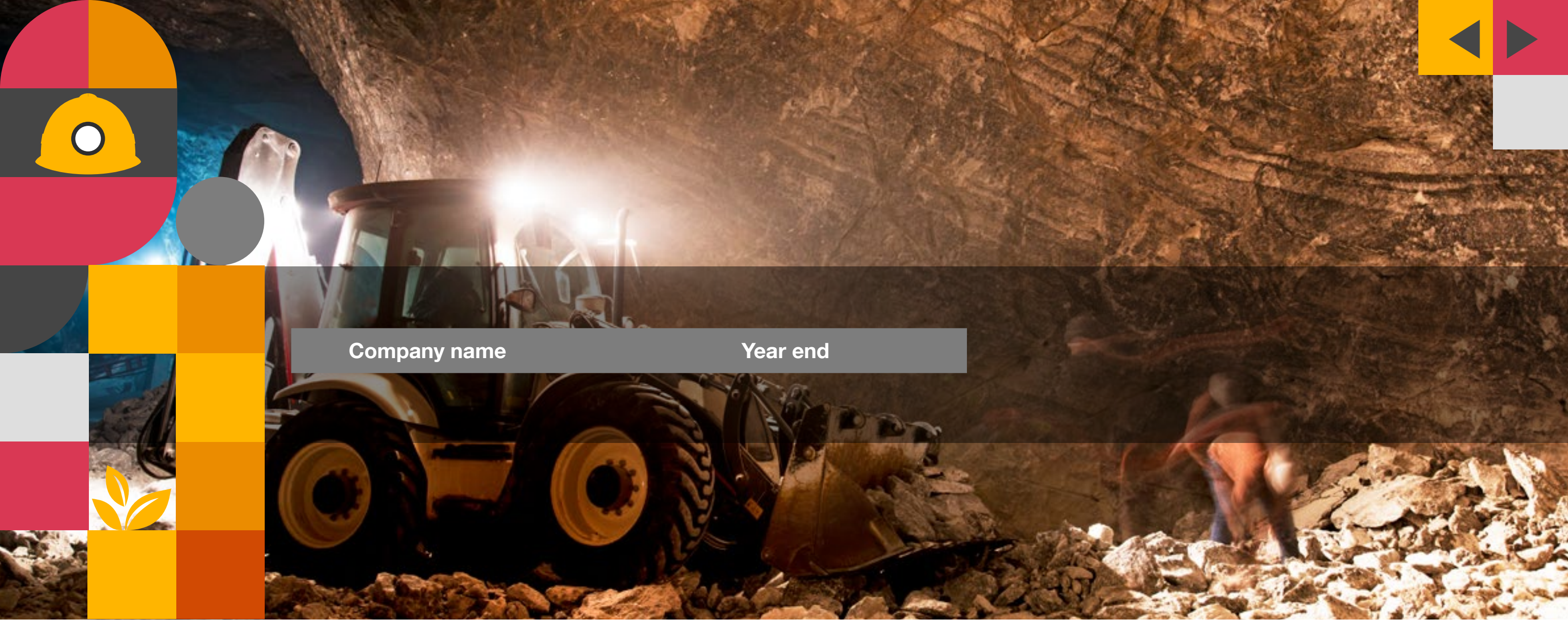
Some diversified companies undertake part of their activities outside the mining industry. No attempt has been made to exclude such non-mining activities from the aggregated financial information.

Companies analysed for the leverage analysis section

The financial analysis of the selected companies has been conducted using historical exchange rates and data sourced from S&P CapIQ as of 24 July 2024. The period used to compare the financial results was from 1 January 2021 to 31 December 2023. This approach may not fully capture the impact of current currency fluctuation or future exchange rate movements, potentially affecting the accuracy of financial projections and comparisons.

The analysis focuses on historical financial data and trends without considering future strategic plans, market conditions, or potential regulatory changes. Additionally, the mining sector is influenced by various external factors, such as commodity price volatility, geographical risks, and unpredictable regulatory changes that could significantly affect financial performance. It is also important to note that past performance does not necessarily indicate future results and unforeseen events may alter expected outcomes.

Product classification	Company name
Gold	Gold Fields Limited
	Harmony Gold Limited
	DRDGOLD Limited
	Pan African Resources PLC
PGM	Anglo American Platinum Limited
	Impala Platinum Holdings Limited
	Northam Platinum Holdings Ltd
	Wesizwe Limited
Coal	Thungela Resources Limited
	Exxaro Resources Ltd



	Company name	Year end
1	African Rainbow Minerals Limited	30 June 2024
2	Afrimat Limited	29 February 2024
4	Anglo American Platinum Limited	31 December 2023
5	Copper360 Limited	29 February 2024
6	DRDGold Limited	30 June 2024
7	Eastern Platinum Limited	31 December 2023
8	Exxaro Resources Limited	31 December 2023
9	Gold Fields Limited	31 December 2023
10	Goldplat PLC *	30 June 2024
11	Harmony Gold Mining Company	30 June 2024
12	Impala Platinum Holdings Limited	30 June 2024
13	Jubilee Metals Group Plc *	30 June 2024
14	Kropz plc *	31 December 2023
15	Kumba Iron Ore Limited	31 December 2023
16	Mantengu Mining Limited	29 February 2024
17	Merafe Resources Limited	31 December 2023
18	Northam Platinum Limited	30 June 2024
19	Orion Minerals Limited *	30 June 2024
20	Pan African Resources Plc	30 June 2024
21	Petra Diamonds Limited *	30 June 2024
22	Platinum Group Metals Limited	31 August 2024
23	Sibanye-Stillwater Limited	31 December 2023
24	Southern Palladium Limited *	30 June 2024
25	Sylvania Platinum Limited	30 June 2024
26	Tharisa PLC	30 September 2023
27	Thungela Resources Limited	31 December 2023
28	Wesizwe Platinum Limited *	31 December 2023

For the entities indicated with an asterisk (*), latest results were not released in time for inclusion in the publication.

Glossary

Terms	Definition
Acid ratio	(Current assets less inventory) / current liabilities
BEPS	Base Erosion and Profit Shifting
Capex	Capital expenditure
CIT	Corporate income tax
CO2	Carbon dioxide
Current ratio	Current assets/current liabilities
EBITDA	Earnings before interest, tax, depreciation, amortisation and impairments
EBITDA margin	EBITDA / revenue
ESG	Environmental, social and governance
ETR	Effective Tax Rate
Gearing percentage	Net borrowings / (net borrowings plus equity)
GDP	Gross domestic product
Gross leverage	Interest bearing borrowings / EBITDA
IDPs	Integrated Development Plans
JSE	Johannesburg Stock Exchange
JV	Joint Venture
Market capitalisation	The market value of the company calculated as the number of shares outstanding, multiplied by the share price
M&A	Mergers and acquisitions
MES	Minimum emission standards
MPRDA	Mineral and Petroleum Resources Development Act t
MPRRA	Mineral and Petroleum Resources Royalty Act
NEMA	National Environmental Management Act

Terms	Definition
Net asset value	Total assets less total liabilities
Net borrowings	Interest-bearing debt less cash
Net profit margin	Net profit / revenue
Net Leverage	Net borrowings/EBITDA
PGM	Platinum group metal
PV	Photovoltaic
RE	Renewable Energy
R&D	Research and Development
RBCT	Richards Bay Coal Terminal
SARS	South African Revenue Service
SLP's	Social and Labour Plans
Stats SA	Statistics South Africa
Solvency ratio	Total assets / total debt
TSE	Toronto Stock Exchange
TFR	Transnet Freight Rail
US	United States
USD	United States Dollar
Working capital	Inventories plus accounts receivable less accounts payable
y-o-y	Year on year
YTD	Year to date

Contacts

Vuyiswa Khutlang
SA Mine project leader
Johannesburg, South Africa
T: +27 (0) 11 287 0773
E: vuyiswa.khutlang@pwc.com

Andries Rossouw
Africa Energy, Utilities and Resources Leader
Johannesburg, South Africa
T: +27 (0) 11 797 4060
E: andries.rossouw@pwc.com

Laetitia Le Roux
Energy, Utilities & Resources
South Market Tax Leader
T: +27 (0) 11 797 5429
E: laetitia.le.roux@pwc.com

George Arhin
West Market Mining Industry Leader – Ghana
T: +233 30 274 2607
E: george.arhin@pwc.com

Moussa Camara
Francophone Africa Energy &
Mining Industry Leader
T: +224 664 00 00 33
E: moussa.camara@pwc.com

Ali Dawoodbhai
Energy, Utilities &
Resources Leader – Tanzania
T: +255 (0) 22 219 2620
E: ali.dawoodbhai@pwc.com

Contributors

Danelle Lundie
Alisha Berg
Andrew King
Athembele Gqada
Chantal van der Watt
Chrisna Evans
Christie Viljoen
Francois van den Berg
Ian McKay
Jason Wright
Khalid Mather
Lambertus Schrap
Lullu Krugel
Matt Muller
Michael Ngarachu
Miron Sarembok
Ondela Mabope
Raagesh Singh
Ruben Strydom
Salome Ntsibande
Sange Mxenge
Sheivaan Naidoo
Sikhulile Thenjwayo
Silindokuhle Mpinda
Simba Guzha-Chanetsa
Stephan Swanepoel
Tanya Schutte
Tatenda Jimu
Thomas Payne
Tristam Scott
Ziyanda Dayile
Zukiso Magangana

Endnotes

1 https://www.dailymaverick.co.za/article/2024-05-22-round-three-anglo-prepared-to-talk-after-rebuffing-bhps-third-49-bn-offer/

2 https://www.mining-technology.com/news/anglogold-ashanti-signs-earn-in-deal-with-kincora-for-njnb-project/

3 Bowmans: "South Africa: Alternative financing arrangements in the mining sector"

www.pwc.co.za/mining