Creamer Media's MINING WEEKLY Online

Take cash where you can get it, bankers urge mining companies

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Published: 14th January 2009

TORONTO (miningweekly.com) – Cash is 'king' in the current environment, and should be preserved and pursued as a top priority, high-level speakers from UBS, KPMG, Jennings Capital and Standard America said in Toronto on Tuesday.

Through successive presentations at a MineAfrica seminar on 'Surviving the global financial crisis in the mining sector', the message was clear – if you have access to financing which you might need, it is probably better to take it.

Miners around the world have been bruised in recent months by a combination of low commodity prices, plummeting market valuations and reluctant lenders, and a growing number of companies are having to curtail production, delay projects and cut jobs in order to stay afloat.

A crucial requirement for companies to survive the next 18 to 24 months will be the cash consideration, said KPMG global mining chairperson **Lee Hodgkinson**.

“Cash is king.”

He urged companies to refine their working-capital management and cash flow forecasting procedures.

However, for many firms simply hunkering down and pinching pennies will not be enough to get them through the difficult months ahead.

Although funding has not completely dried up for miners and developers, any finance is generally scarce and very expensive, particularly for junior companies, Hodgkinson said.

It should be noted that an exception to this scenario is producing gold miners, as companies like Yamana Gold and Harmony Gold are still successfully raising cash.

“But, for most mining companies and juniors, treasuries are drained and money is scarce,” said Jennings Capital senior MD for investment banking **Darryl Hodges**.

“And the struggle is going to go on for quite a bit longer.”

Both Hodges and UBS Securities Canada vice-chairperson **James Kofman** agreed that companies that are able to access either debt or equity markets should seize the opportunity.

“The smart decision at the moment is to get the cash if you can, even if it's expensive,” Kofman commented.

He especially urged juniors who are battling with weak balance sheets but are hesitant to agree to dilutive share sales, rather to sell equity when they can, than wait until it is too late.

An additional factor to take into consideration is that potential lenders, like equity investors, are becoming increasingly risk averse, said Standard Americas director of investment banking: mining and metals **Ted Kavanagh**.

Companies and projects are coming under heightened scrutiny and the spectrum of "acceptable" geographical regions for projects needing funding is shrinking, he added.

M&A OUTLOOK?

While cash is the undisputed monarch of modern mining, views diverge on what direction corporate activity in the sector will take over the next year or two.

Both Hodges and KPMG's Hodgkinson believe that merger and acquisition (M&A) activity should, and will, gain pace, as well-capitalised firms go in search of bargains and less fortunate ones put themselves up for sale to ensure survival.

“There are lots of opportunities out there for companies with cash in their hands,” Hodgkinson commented.

However, UBS's Kofman suggested instead that corporate activity will slow, in part because sellers know that they are not likely to realise a decent price, and partly because of the 'psychological' deterrent to buyers.

“No-one wants to be the one to buy an asset, and then the situation deteriorates and you look foolish because of the price you paid," he commented.

“Overall, M&A is unlikely to take off until there is a broader sense that we are through the crisis."

Hodges, however, urged mining executives to consider M&A as a way to build "critical mass"; firstly, to make sure they are on the radar for investors and portfolio managers, and secondly, to best position themselves for a recovery.

"For companies that embrace the best practice and are prepared to look at M&A, there will be significant opportunities" when markets turn around, Hodgkinson agreed.

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