

Global Mining COVID-19

April 2020

When we closed our annual Global Mining Risk survey of executives just a quarter ago, pandemic was not identified as a risk. Back then the top risks included commodity price risk, access to capital, community relations and global trade war.

A quarter later and the Global COVID-19 pandemic response is at the forefront of immediate mining sector planning, decision making and risk mitigation.

A challenge for miners

The emergence of a highly contagious virus pandemic which spreads exponentially, requiring the mass isolation of people and the focus of healthcare and governments.

The World Bank, OECD and UN all reforecasting dramatic falls in economic growth for major economies of the World, with recent scenarios seeing China at essentially zero growth.

Different commodities are facing different market pressures and price volatility with associated issues on cashflow and liquidity. In the quarter Copper, Nickel, Aluminium fell up to 20%. Battery minerals pricing has fallen further, while iron ore and gold have remained strong.

Currencies are also experiencing significant short term volatilities.

Depending on the COVID-19 status of each jurisdiction and the reaction of their governments we see very different laws in different states and across different countries. Operating in South Africa, Quebec or Peru is very different to the Pilbara or Bowen Basin in Queensland.

From a leadership perspective this means that a "one size fits all" response won't work.

KPMG has been working with clients in the sector – and whilst we haven't had time to rerun our survey, I can share what KPMG are seeing and how that translates into responses. Inevitably they centre on the wellbeing of people in what is first and foremost a health crisis and then maintaining operations resiliency in light of an increasing economic crisis.

Current top 10 risks for the sector in this covid environment are:

- 1 The physical and mental health of a critical workforce, their families and communities.
- 2 Operating resilience and maintaining production both at production sites and business critical systems such as production plants, supply chain infrastructure and IT.
- 3 Clear, transparent and fast communication to stakeholders but particularly employees, communities, suppliers and government.
- 4 Managing key supplier risk.
- 5 Monitoring end to end supply chain risks and adapting as issues emerge. This requires a very clear understanding of where heightened risk of bottlenecks or supplier failure might occur and the contingency plans to manage those. Particular issues might be critical spares, aviation, departure or destination ports.
- 6 Ensuring Cyber risk is managed as increasing numbers of people work remotely, sharing data and access to business critical systems.
- 7 Managing liquidity risks and shocks. Scenario model operating and capital cashflows. Debt maturity profiles and covenants. Potential equity support in rapid raise scenario. Credit or Force Majeure risk position of major customers.
- 8 Global recessionary risk to commodity prices and currency volatilities.
- 9 Shared service centres or outsourced functions in jurisdictions badly affected by COVID-19.
- 10 Some commodities have seen significant and rapid decline in prices driving a need for Rapid cost out to preserve resiliency of operation in declining price environment.

The opportunities



The mining sector and the people who make it work have been acknowledged by all levels of government and the community as “Essential”



The industry permanently operates with crisis management response plans in place. Whilst the nature of the crisis might vary, plans are adaptable and companies are typically not starting with a “blank sheet of paper”



The mining sector is highly resilient. Its underlying assets don't deteriorate, they drive the manufacture and construction of the goods we need and managing cyclical shocks is in its DNA.



Embracing and focus on increasing the use of technology enablement to keep organisations operating. Areas such as equipment automation, use of Bots for support functions.



The willingness to collaborate as an industry, work together and find solutions.



Successful organisations are proving themselves to be nimble, focussing on what's critical and eliminating complexity.



Asset values have fallen. This potentially presents medium to long term buying opportunities.



The last 5 years has seen good growth and margins in the mining sector. Significantly, this has been used to strengthen balance sheets which provides the war chest needed at the moment.



Resource up where it is most needed. Ensure that the organisation is not capability starved where it needs it most. Bring in help where it is needed.



The sector will immediately benefit from large scale, systemic stimulus from global governments.

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