

## Mining: Quarterly Production Focus

Following on from our analysis of the mining sector earlier this year we thought it appropriate to review the latest quarterly production figures from two of the key global producers to assess if they are on track to meet expectations in a sector under scrutiny from investors



**Roy  
Lamb**

### BHP Group

BHP released its operational review for the nine months ended 31 March 2021. Traditionally their third quarter is one of their weaker quarters due to weather conditions in some of their key coal-producing regions. Putting into context the production numbers below, it is worth bearing in mind the expected contribution to earnings for BHP's full-year 2021: 70% is expected to

come from iron ore, 22% from copper, 2% from coal and 6% from petroleum and potash. The company has had a good track record of meeting production guidance and this quarter proved no exception. For its financial year to date, BHP is currently at record production at Western Australia Iron Ore (this despite adverse weather conditions) as well as its metallurgical coal mine in Queensland and throughput at its Escondida copper mine in Chile.

Despite record production for the 9 months of its financial year, production came under pressure from both iron ore and copper during the first three months of the year. Iron ore production fell 4% relative to the 3 months that ended in December '20, whilst copper production fell 9% - due to lower grades and throughput at Escondida. Nonetheless, Escondida (which is a joint venture between BHP, Rio Tinto, Mitsubishi and Nippon Mining) still remains the world's largest copper mine, accounting for almost 6% of annual global production.

Coal can be divided into two divisions, namely metallurgical coal, used in the production of steel, and thermal coal used to produce electricity. The former is a lot more valuable than the latter. Metallurgical coal production was 9.6mt, +4% growth year-on-year and +1% growth quarter-on-quarter. On the other hand, thermal coal production was 4.8mt, down 17% year-on-year (due to strike action and prolonged wet weather) but +34% quarter-on-quarter. Finally, petroleum production of 25.4MMboe (million barrels of oil equivalent) was +1% higher year-on-year and

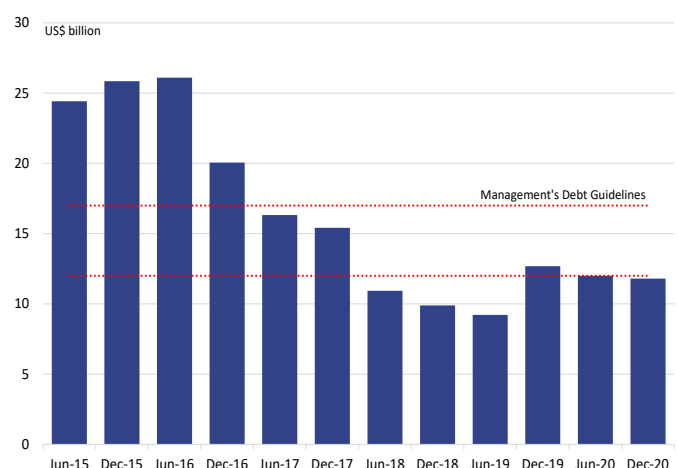
### SPEED READ

- Copper and iron ore prices are trading at 10-year highs whilst palladium is at fresh all-time highs.
- Local diversified miners are holding their production forecasts steady for most commodities.
- The outlook for the return of excess cash to shareholders remains promising (*ceteris paribus* – all things being equal).

+7% higher quarter-on-quarter.

Encouragingly the guidance from BHP for its full-year production volumes for iron ore and petroleum were unchanged whilst the forecasts for copper production have been increased. A reminder that these divisions will account for more than 95% of BHP's profit this year. Metallurgical

### BHP GROUP: NET DEBT



*Despite paying out 85% of its profits as a dividend for the 6 months ended December 2020, net debt is still at the bottom of their target range. This bodes well for additional cash returns to shareholders at its year-end results.*

and energy coal original production forecasts have been cut slightly due to some weather disruptions over the past few months.

Production is one side of the equation that determines profitability. The other is the cost of production and consequently the margins that BHP is expected to earn. Encouragingly, the cost guidance for both the iron ore and petroleum divisions remain unchanged from the previous quarter. With iron ore prices hovering around \$180/t and the cost of production at approximately \$13/t, the margins are eye-watering. Margins of 60% and 49% respectively for copper and petroleum are also extremely healthy. Given the healthy balance sheet and net debt at the low end of management's internal range, this operating update reinforces the market's view that BHP should handsomely reward shareholders when it announces year-end results in September.

### Anglo American

Anglo released their first quarter 2021 production report on the 22nd of April which included a comment from the CEO that their "portfolio is increasingly tilted towards future enabling metals and minerals". In this regard, they plan to demerge and separately list their thermal coal operations in SA - basically to exit coal amid growing investor pressure to reduce their carbon footprint. This new holding company, called Thungela Resources, will have a primary listing on the JSE and a secondary listing on the London Stock Exchange. Thungela consists of 7 operating mines, staffed by 7,500 employees and contractors, and with an annual production of 16.5mt of export production and 14mt for sale locally.

Returning to their Q1 production numbers, unfortunately there was only one standout division, namely platinum group metals (PGM). Anglo owns 80% of Anglo Platinum, and this division accounts for 34% of its earnings. Refined production grew by 15% from the same time last year, mainly due to the lower impact of Covid-19. Importantly, full-year production and sales guidance from the company has been maintained.

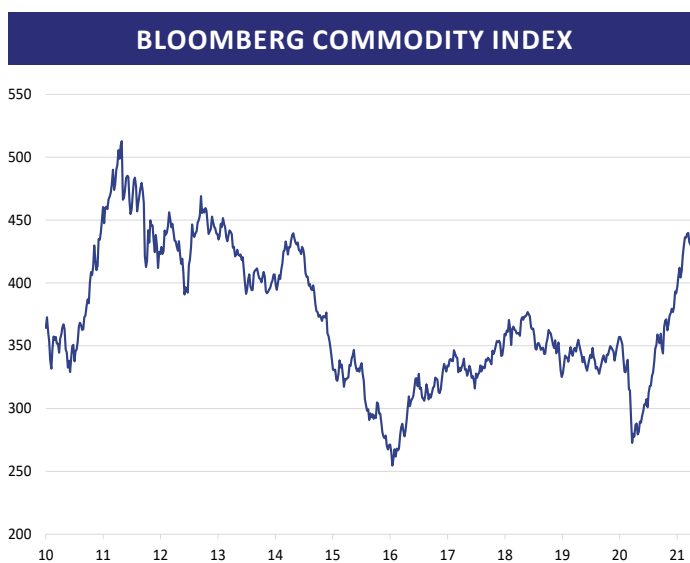
Diamond production (accounting for 5% of earnings through 85% owned De Beers) declined 7% vs the same quarter last year but grew by 8% vs Q4 2020, implying a continuation of the operational recovery post Covid. De Beers faced a few challenges during the quarter, including excessive rainfall in SA and a Covid-19 related shutdown in Canada. Similar to PGMs, the production outlook for the year remains unchanged. Copper production (14% of earnings) increased by 9% on the same quarter in 2020 (strong performances from two of their key mines) but declined slightly (-4%) from the rates achieved in Q4 2020.

Guidance also remained unchanged.

The iron ore division (40% of earnings through 51% ownership of Kumba) reported very similar numbers to both the previous quarter and the same period last year. Production was up 1%, driven by a 10% increase at Kumba and partly offset by a -13% decrease at Minas-Rio in Brazil. Group sales of iron ore were negatively affected due to rail disruption and wet weather in SA. Manganese production increased by 7%, largely driven by improved equipment reliability in SA, but slightly down on Q4 2020 (-4%). Nickel production, which only accounts for 1% of earnings had a poor quarter. Production fell 7% relative to the same quarter last year and by 14% relative to Q4 2020, mainly due to lower-than-expected ore grades.

Lastly, Coal production (5% of earnings) was weaker, especially on the metallurgical front (-14% from Q1 2020 and -22% from Q4 2020), mainly due to the suspension of operations at a major mine following an underground gas explosion in May 2020. For thermal coal, SA export production fell -25% vs. Q1 2020 due to Covid-19 related measures. Given the proposed demerger, guidance was also reduced. Fortunately, the weak volumes in the Coal division were largely offset by an increase of approximately 30% in the realised coal price.

Comparing metals prices at the end of December 2020 – also Anglo's financial year end – to the end of March '21 shows the strength of underlying demand for its suite of assets: copper +40%, platinum group metals basket price +10% and iron ore +60%. Together these three contribute almost 90% of Anglo's earnings. Like BHP, we can expect another strong result, which should feed through to shareholder returns.



*The BCI reached a 10-year high earlier this week as prices of everything from metals to agricultural products continues to soar in reaction to rampant demand.*



We are excited to have resumed our seminar program in April / May. Our next seminar is scheduled for June / July. The topic will be announced in due course.

Please save the date below. Please note that due to Covid protocols, numbers are strictly limited to 100 per session, and only drinks (no food) will be served. Booking is therefore essential.



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## Topic:

## To be advised

### Natal Midlands

Date:	24th June 2021
Venue:	Fernhill Hotel Midmar / Tweedie Road Howick
Morning Time:	10am for 10.30am
Evening Time:	5.30pm for 6pm

### Johannesburg

Date:	08 July 2021
Venue:	Rosebank Union Church, Cnr William Nichol and St Andrews Road, Hurlingham
Time:	7am for 7.30am

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