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THE OUTLOOK FOR THE MINING SECTOR

Deteriorating global macroeconomic conditions are expected to persist into early 2023.

The short-term outlook is set within a global macroeconomic environment that is constrained by high energy prices, rampant inflation and the increasing likelihood of recession in some key economies. This represents a downside risk to the metals and mining sector as many commodity prices slide and equity market support weakens.

Longer term, the energy transition is expected to drive consumption growth.

External risks such as environmental regulations and geopolitical factors like the war in Ukraine, are areas of concern for the mining industry.

Regulatory burden remains a high risk to the mining industry and permit risk is also increasing.

The war for talent is a major concern for the mining industry and refocusing thinking on the skills needed in the mining industry of the future is taking precedence. The specialised talent to ensure that the mining industry can deal with all the risks including climate change experts, environmental scientists, digitisation of mining information, technology-centric roles, data analysts, computer scientists, heritage experts, and water management specialists, among others. The skills and experience to manage and mitigate climate change will be key to deal with future risks in the mining sector.

Supply chain risks have also increased as they are driving increased costs of materials and supplies. In addition, global inflationary increases are also becoming a concern, while energy costs for businesses are rising rapidly and specifically in South Africa, the limited availability of energy and load shedding delays are increasing diesel and energy costs.

The ability to access and replace reserves is an ongoing issue in the mining industry and will impact the sustainability mines where this risk is not dealt with efficiently.

Social licence to operate and maintaining positive community relations remains a major concern for executives.

Health and Safety risk remains a high-risk area for the mining industry including fall of ground and other safety incidents. On a positive note, the Regulator has announced this week that mining-related deaths have reduced by 34%.

Business disruption due to power outages, social unrest, water supply interruption, and supply chain inefficiency may also negatively impact mining businesses in the short to medium term.

Lower activity levels in the second half of 2022 and through 2023 will reinforce the importance of the metals and mining industry's role in the global energy transition imperatives. Supply constraints across commodities deemed critical to the effort are forecasted to emerge as early as 2024, with demand expanding markedly on rising electric vehicles sales, the shift towards renewable energy technologies, and related transmission and distribution requirements. As government policies increasingly focus on meeting critical materials requirements through domestic and regional supply chains, the mining sector should see additional support for the development of projects in the near-to-medium term, buoyed by prices that are expected to remain relatively high through 2026, compared with pre-pandemic levels.

On the positive side:

South Africa is a key international mining investment destination, and still holds vast quantities of minerals, such as gold, platinum, coal, iron ore and copper. With this diverse mineral reserve portfolio, the mining sector holds a long-term growth outlook. This makes South Africa a strong competitor for investment opportunities.

With highly developed road, rail and sea freight infrastructure linking the country's lucrative mines to international markets; an established supplier value chain; and some of the world's largest mining houses, South Africa is a proven investment destination for mining.

Sustainability and ESG are becoming bigger concerns for the mining sector. ESG risks are predicted to be the number one risk to the mining industry over the next three years.

The combination of these social and environmental issues with digital transformation is driving sector-wide transformation and reconsideration of risk and the risk appetite that companies currently have in place.

As we head into 2023, the mining and metals sector is responding with more fundamental shifts to business and operating models. This presents a unique opportunity for miners to analyse where optimal value can be found — and change business models to ensure that value is created.

Companies that change their business models to suit the current environment will have a better opportunity to future-proof their business model and anticipate disruptions and changing commercial relationships. This would enhance and strengthen their competitive advantage.

The path to Net zero is a focus. Companies have to decide what their role is in enabling an environment for the just energy transition and achieving decarbonisation targets.

Key priorities include increasing credibility of mines through adequate disclosure, ensuring water stewardship, defining the circular economy, addressing expectations on biodiversity and developing a long-term strategic vision for mine closure.

In the past, mining operations have had a linear process. The opportunity in a circular economy is to use, recycle or reuse ore that is mined and processed, but opportunities should be explored to create by-products from waste that can be used within mining or in other industries.

This change will ensure a focus on sustainability and greater self-sufficiency of the mines. It could also offer alternative job creation for the community and/or miners.

The unequal geographical spread of critical raw materials is reflected in market share. China is one of the top three suppliers of many of the elements, way ahead of the United States and Russia. This dominance is partly attributable to deposits across China itself, but it is also down to deliberate planning. This is raising supply concerns for many nations as this may result in a raw materials supply risk.

BDO Integrated Advisory Services adding value to the mining sector

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Business Intelligence & Data Analytics	Legal	Legal	People and Business Solutions	Corporate Finance
Cloud Advisory	Business Solutions and Outsourcing	Business Solutions and Outsourcing	Business Optimisation	Project Finance
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