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ATLANTIC CAPITAL MARKETS

Mining Giants Sector Review

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The mining sector has attracted both investors and traders for years, largely due to the accelerated moves and strong dividends. However, with all stocks or sectors that present good upside potential this comes with an equal amount of risk and the mining sector is no exception. They are instrumental to global growth, to put it bluntly they dig, process and sell a variety of metals, minerals, and energy products that are essential to growth on a global scale, and inversely global growth trends are also essential to fuel moves in the sector. This makes it possibly one of the most important sectors not only for investors but also as a global proxy on growth. In 2020, the mining industry's leading 40 companies had a total revenue of approximately $656 billion. The fact that they can offer very appealing dividends and capital growth makes the sector attractive to both the income and growth investors. In this report we give an overview of the sector, highlight the main UK players as well as concerns coming into the sector.

The commodities mined generally fall into the following sectors.

- **Base Metals:** Commonly available and inexpensive metals mainly used for industrial applications. Commodities in this sector include iron ore, nickel, lead, zinc, copper, aluminium, molybdenum, and cobalt.

- **Precious Metals:** Rarer naturally occurring metals that have a higher value. The main precious metals are gold, silver, platinum, and palladium.

- **Energy Materials:** Several materials are mined out of the earth and burned to create energy. The most common is coal, however uranium (used for nuclear power) and bitumen (a tar-like substance, that's refined into crude oil) also fall into this category.

- **Minerals:** These are solid compounds found in their pure form in nature. Mined minerals include potash, talc, gypsum, calcite, quartz, diamonds, and salt.

- **Construction Materials:** Common construction aggregate materials are limestone, trap rock, sand, and granite.

Rio Tinto

Brief background

Rio Tinto is an Anglo-Australian multinational and one of the world's largest metals and mining corporations. The company was founded in 1873, when a multinational consortium of investors purchased a mine complex on the Rio Tinto, in Huelva, Spain from the Spanish government. Since then, the company has developed and grown through mergers and acquisitions. Rio's focus is mineral extraction however operations do expand into the refining of certain minerals, particularly bauxite and iron ore. The company has operations on six continents but is mainly concentrated in Australia and Canada. Rio Tinto is a dual-listed company traded on both the London Stock Exchange, and the Australian Securities Exchange Additionally, American Depositary Shares of Rio Tinto's British branch are traded on the New York Stock Exchange giving it listings on a total of 3 major stock exchanges.

Operations and Commodities

Rio's main commodities are aluminium, copper, diamonds, gold, iron ore, and uranium as well as industrial minerals borates, titanium dioxide and salt. Overall, there's 47,000 people who work in around 35 countries across six continents including Australia and North America, and have significant businesses in Asia, Europe, Africa and South America.

Key Fundamentals

Valuation	Balance Sheet	Income Statement
Market Capitalization**80.077B**	Quick Ratio (MRQ)—	Net Margin (TTM)**0.3199**
Enterprise Value (MRQ)—	Current Ratio (MRQ)**2.1336**	Gross Margin (TTM)**0.4838**
Enterprise Value/EBITDA (TTM)**5.5202**	Debt to Equity Ratio (MRQ)**0.2392**	Operating Margin (TTM)**0.4838**
Total Shares Outstanding (MRQ)**1.618B**	Net Debt (MRQ)**-81.798M**	Pretax Margin (TTM)**0.4632**
Number of Employees**47.474K**	Total Debt (MRQ)**10.072B**	**Income Statement**
Number of Shareholders**35.102K**	Total Assets (MRQ)**74.879B**	Basic EPS (FY)**4.7100**
Price to Earnings Ratio (TTM)**5.7093**	**Operating Metrics**	Basic EPS (TTM)**8.5357**
Price to Revenue Ratio (TTM)**1.8266**	Return on Assets (TTM)**0.1927**	EPS Diluted (FY)**4.6776**
Price to Book (FY)**2.2741**	Return on Equity (TTM)**0.3940**	Net Income (FY)**7.618B**
Price to Sales (FY)**2.2663**	Return on Invested Capital (TTM)**0.3050**	EBITDA (TTM)**24.5B**
	Revenue per Employee (TTM)**732787.3984**	Gross Profit (MRQ)—
		Gross Profit (FY)**14.256B**
		Last Year Revenue (FY)**34.788B**
		Total Revenue (FY)**34.788B**
		Free Cash Flow (TTM)**13.168B**


RIO TINTO PLC ORD 10P · 1D · LSE · Heikin Ashi
O4837.5 H4854.0 L4794.5 C4835.0 −44.5 (−0.91%)
4836.0
1.5
4837.5
Vol 508.016K
GBX
6750.0
6500.0
6250.0
6000.0
5750.0
5500.0
5250.0
4837.0
4835.0
06:49:20
4500.0
4250.0
4000.0
3750.0
3500.0
3250.0
May
Jul
Aug
Sep
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Nov
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2021
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May
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Sep
Oct

Anglo American

Brief Background

Anglo American plc is a British multinational mining company based in Johannesburg, South Africa and London. The group was founded by Sir Ernest Oppenheimer in 1917 as the Anglo-American Corporation in Johannesburg, South Africa, with financial backing from the American bank J.P. Morgan and £1 million raised from UK and US sources to start the initial gold mining company. Originally the AAC, they then became the majority stakeholder in the De Beers company in 1926 Anglo American has a primary listing on the London Stock Exchange and is a constituent of the FTSE 100 Index. The company has a secondary listing on the Johannesburg Stock Exchange. A further deal was then done in November 2011 with the Oppenheimer family to divest the remaining Oppenheimer share of De Beers, an additional 40% stake for $5.1 billion.

Operations and commodities

It is the world's largest producer of platinum, with around 40% of world output, as well as being a major producer of diamonds, copper, nickel, iron ore and metallurgical and thermal coal. The company has operations in Africa, Asia, Australasia, Europe, North America and South America.

The company focuses on natural resources with six core businesses: Kumba Iron Ore; Iron Ore Brazil; Coal (thermal and metallurgical); Base metals (Copper, Nickel, Niobium, Phosphates); Platinum; Diamonds, through De Beers, in which it owns an 85% share.

Key Fundamentals

Valuation	**Balance Sheet**	**Income Statement**
Market Capitalization**32.015B**	Quick Ratio (MRQ)—	Net Margin (TTM)**0.1671**
Enterprise Value (MRQ)—	Current Ratio (MRQ)**2.0640**	Gross Margin (TTM)**0.3727**
Enterprise Value/EBITDA (TTM)**5.7506**	Debt to Equity Ratio (MRQ)**0.3475**	Operating Margin (TTM)**0.3727**
Total Shares Outstanding (MRQ)**1.234B**	Net Debt (MRQ)**1.538B**	Pretax Margin (TTM)**0.3530**
Number of Employees**95K**	Total Debt (MRQ)**9.481B**	**Income Statement**
Number of Shareholders**21.254K**	Total Assets (MRQ)**50.018B**	Basic EPS (FY)**1.3148**
Price to Earnings Ratio (TTM)**6.4620**	**Operating Metrics**	Basic EPS (TTM)**4.0130**
Price to Revenue Ratio (TTM)**1.0798**	Return on Assets (TTM)**0.1045**	EPS Diluted (FY)**1.3001**
Price to Book (FY)**1.6799**	Return on Equity (TTM)**0.2486**	Net Income (FY)**1.629B**
Price to Sales (FY)**1.3321**	Return on Invested Capital (TTM)**0.1717**	EBITDA (TTM)**13.219B**
	Revenue per Employee (TTM)**253661.6670**	Gross Profit (MRQ)—
		Gross Profit (FY)**8.23B**
		Last Year Revenue (FY)**24.098B**
		Total Revenue (FY)**24.098B**


ANGLO AMERICAN PLC ORD USD0.54945 · 1D · LSE · Heikin Ashi
O2572.5 H2615.0 L2567.0 C2595.0 +14.5 (+0.56%)
2614.0 1.0 2615.0
Vol 541.976K
GBX
3600.0
3400.0
3200.0
3000.0
2800.0
2615.0
2595.0
06:55:44
2400.0
2200.0
2000.0
1800.0
1600.0
1400.0
1200.0
Jun Jul Aug Sep Oct Nov Dec 2021 Feb Mar Apr May Jun Jul Aug Sep Oct

BHP GROUP

BHP as it is now known was founded in 1885 in the small mining town of Broken Hill in New South Wales. By 2017 BHP ranked as the world's largest mining company, based on market capitalisation, and as Melbourne's third-largest company by revenue, which "almost tripled between 2004 and 2012". BHP in its current form emerged in 2001 through the merger of the Australian Broken Hill Proprietary Company Limited (BHP) and the Anglo–Dutch Billiton plc, this led to the formation of BHP Billiton. The Australia-registered arm of the business has a primary listing on the Australian Securities Exchange and is one of the largest companies in Australia by market capitalisation. The English-registered plc arm has a primary listing on the London Stock Exchange. In 2015, some BHP Billiton assets were then demerged and rebranded as South32, while a scaled-down BHP Billiton became BHP and, in 2018, BHP Billiton Limited and BHP Billiton Plc became BHP Group Limited and BHP Group Plc, respectively.

Operations and Commodities

BHP has mining operations in Australia, North America, and South America, and petroleum operations in the US, Australia, Trinidad and Tobago, the UK, and Algeria. The company has four primary operational units, with a developmental potash project underway as well. The main commodities include Coal, Copper, Iron ore and Petroleum. The firm have over 72,000 employees and contractors, globally with primary operations in Australia and the Americas. Global headquarters are in Melbourne, Australia.

Key Fundamentals

Valuation	**Balance Sheet**	**Income Statement**
Market Capitalization1**00.139B**	Quick Ratio (MRQ)—	Net Margin (TTM)**0.1850**
Enterprise Value (MRQ)—	Current Ratio (MRQ)**1.6273**	Gross Margin (TTM)**0.4415**
Enterprise Value/EBITDA (TTM)**3.9091**	Debt to Equity Ratio (MRQ)**0.3774**	Operating Margin (TTM)**0.4415**
Total Shares Outstanding (MRQ)**5.061B**	Net Debt (MRQ)**4.151B**	Pretax Margin (TTM)**0.4016**
Number of Employees—	Total Debt (MRQ)**15.189B**	**Income Statement**
Number of Shareholders**556.725K**	Total Assets (MRQ)**78.85B**	Basic EPS (FY)**1.6616**
Price to Earnings Ratio (TTM)**11.5264**	**Operating Metrics**	Basic EPS (TTM)**1.6447**
Price to Revenue Ratio (TTM)**2.1317**	Return on Assets (TTM)**0.1016**	EPS Diluted (FY)**1.6579**
Price to Book (FY)**2.5778**	Return on Equity (TTM)**0.2191**	Net Income (FY)**8.402B**
Price to Sales (FY)**2.1206**	Return on Invested Capital (TTM)**0.1554**	EBITDA (TTM)**24.925B**
	Revenue per Employee (TTM)	Gross Profit (MRQ)—
		Gross Profit (FY)**25.821B**
		Last Year Revenue (FY)**45.206B**
		Total Revenue (FY)**45.206B**
		Free Cash Flow (TTM)**14.854B**


BHP GROUP PLC ORD $0.50 · 1D · LSE · Heikin Ashi
O1893.4 H1893.4 L1861.0 C1879.8 −24.8 (−1.30%)
1877.6
0.6
1878.2
Vol 861.945K
GBX
2500.0
2400.0
2300.0
2200.0
2100.0
2000.0
1879.8
06:52:20
1877.8
1700.0
1600.0
1500.0
1400.0

Glencore

Glencore plc is an Anglo-Swiss multinational commodity trading and mining company with headquarters in Baar, Switzerland, its oil and gas head office in London and its registered office in Saint Helier, Jersey. The current company was created through a merger of Glencore with Xstrata on 2 May 2013. As Glencore International, the company was already one of the world's largest integrated producers and marketers of commodities. It was the largest company in Switzerland as well as the world's largest commodities trading company. The company was formed in 1994 by a management buyout of Marc Rich + Co AG. Glencore had several production facilities all around the world and supplied metals, minerals, crude oil, oil products, coal, natural gas and agricultural products to international customers in the automotive, power generation, steel production and food processing industries.

Operations and Commodities

Glencore have a wide range of commodities, it not only mines but trades and sells. Glencore are involved in copper, cobalt, zinc, nickel and ferroalloys and also market aluminium/alumina and iron ore from third parties. They are also a major producer and marketer of coal, with mines in Australia, Africa and South America. Glencore are also one of the world's leading marketers of physical commodities. Physically sourcing commodities and products from their global supplier base. This means transporting commodities by sea, rail and truck, storing them, processing them, and delivering them to the time, quality and specification that their customers need. Through these marketing activities they offer a slightly different offering compared to other miners who mainly focus on commodity production.

Glencore Recycling is a market leader in the recycling of copper and precious metals, with over 70 years' experience in the recycling industry.

Key Fundamentals

Valuation	**Balance Sheet**	**Income Statement**
Market Capitalization**43.43B**	Quick Ratio (MRQ)—	Net Margin (TTM)**0.0119**
Enterprise Value (MRQ)—	Current Ratio (MRQ)**1.0779**	Gross Margin (TTM)**0.0399**
Enterprise Value/EBITDA (TTM)**8.0231**	Debt to Equity Ratio (MRQ)**1.0042**	Operating Margin (TTM)**0.0279**
Total Shares Outstanding (MRQ)**13.19B**	Net Debt (MRQ)**23.507B**	Pretax Margin (TTM)**0.0035**
Number of Employees**145K**	Total Debt (MRQ)**25.35B**	**Income Statement**
Number of Shareholders—	Total Assets (MRQ)**88.616B**	Basic EPS (FY)**-0.1123**
Price to Earnings Ratio (TTM)**29.6615**	**Operating Metrics**	Basic EPS (TTM)**0.1099**
Price to Revenue Ratio (TTM)**0.3536**	Return on Assets (TTM)**0.0162**	EPS Diluted (FY)**-0.1123**
Price to Book (FY)**1.5568**	Return on Equity (TTM)**0.0516**	Net Income (FY)**-1.484B**
Price to Sales (FY)**0.3860**	Return on Invested Capital (TTM)**0.0297**	EBITDA (TTM)**8.42B**
	Revenue per Employee (TTM)**765499.1560**	Gross Profit (MRQ)—
		Gross Profit (FY)**2.938B**
		Last Year Revenue (FY)**110.997B**
		Total Revenue (FY)**110.997B**
		Free Cash Flow (TTM)**4.866B**

Sector Concerns

Underlying commodity prices

Whilst the dividends and growth are very appealing it is also a sector that can be more vulnerable to several key catalysts, relating to underlying commodity prices and changes on a global growth scale as well. Any slowdown in global growth or indeed growth in China can have a serious impact on the underlying commodities, especially base metals used for construction such as iron ore, copper, and aluminium, this in turn has a knock-on effect on share prices. The reality is that the underlying commodity prices will have an impact on share prices, and this can be both a gift and a curse.

Supply & Demand (Especially China)

Commodity prices are driven purely by supply and demand and it is needless to say that an over supply in a certain commodity will undermine prices and then hit share prices as a natural result. This is the most obvious day to day risk on the share price. Recently the fears of a potential default by Evergrande in China fuelled concerns over the Chinese broader economy and potential declines in construction and demand for raw materials, which hit the commodity prices and then the miners share price. China currently consumes more than half the world's copper and steel supplies, and it accounts for well over half the world's primary aluminium production, much of it based on coal-fired energy. The Evergrande situation has raising concerns about a bigger economic crisis in China that could put downward pressure on a lot of the commodities that China consumes.

"If Evergrande were to completely collapse, the supply and demand equation in the metals market could be whiplashed into a strong imbalance that favours the bears — never mind the potential for additional defaults," said Adam Koos, president at Libertas Wealth Management Group.

Environmental impacts

One of the more recent dramatic impacts is the ongoing and almost inevitable decline in the use of coal as the global drive for cleaner energy takes hold and utilities switch over to cleaner energy sources pressure mounts on the sector to combat climate change.

The coal industry would in fact be one of the main issues for the sector at the moment and as such we have seen some of the big players reduce exposure. Rio Tinto sold its remaining coal assets in 2018. BHP Group have also stated that exiting coal would be in its best long-term interest.

Climate change and environmental impact is also a big issue facing them right now, and the sector has a poor record in this area. Most mines as part of the process use something called a tailing pond which holds a mixture of water and waste materials from the mining process. This has a major impact on local environments and with a few very high-profile dam breaches recently has also seen heavy resistance from locals regarding any new mines.

According to a 2020 report by consulting company McKinsey, the mining sector is responsible for 4% to 7% of global greenhouse gas emissions in terms of direct emissions and those from its use of energy.

Government Regulation

The regulation in the sector from local governments can weigh on production and profitability. Regulatory changes come around from a desire that the country in which a mine may be based wants to protect the local environment, government and indeed the local population. Governments can also be concerned if they feel the country is becoming overly reliant on the exports of a single commodity. We saw an example of this in 2018 as Zambia became over reliant on copper exports which accounted for over 60% of export earnings. This in turn left the country suffering from a lack of reinvestment as it was being stripped of its natural resources and profits going into the mining companies' coffers. This has then led to new laws and reforms with governments introducing higher royalties and taxes. These can be set up without any discussion with the firms.

Summary

The sector is not without its risk and as such rewards need to be more to ensure a valid risk reward ratio for investors. When trading any mining stock fair reference needs to be taken from the underlying commodity prices (there's no point buying a silver miner if the price for silver is in a downtrend). This isn't so much of an issue if trading in the heavy weights highlighted in the report as they are all well diversified and mine a range of commodities. It becomes more of a concern if you are trading a stock that is just simply mining a single commodity such as Barrick Gold (Gold) or Antofagasta (Copper). Be mindful of any sector specific announcements such as GDP data, most notably from China being a core consumer of commodities. It is also a sector full of start-ups and junior miners, these are by far the riskiest part of the sector as their fate can be summed up based on the next drilling report (either good or bad) so take extra care when looking at stocks. If you have the appetite, then it can certainly be lucrative, but a strong risk appetite is required. When it comes to the AIM market miners then a mini portfolio approach should be taken, with a range of holdings so the outcome on the portfolio is not all resting on one single stock. Diversification is key.