COVID-19: Mining Industry Focuses on Stabilization

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The mining sector, like other sectors, has been hit hard by the response to COVID-19. There is a dim light at the end of the tunnel, but it is hard to say how long the tunnel is and which companies will be able to make it to the light. It is clear that, in the near term, stabilization will be taking precedence over expansion and acquisitions.

Stabilizing People and the Asset

Globally, a number of jurisdictions have ordered their mining sectors to close, including Peru and South Africa. In Canada, Quebec is shutting down while Ontario and British Columbia remain open – for now. According to TD Securities, as of late March over 100 mining operations, including 70 operating mining operations, have been closed. And when they are able to come back on, it will not be like flipping a switch. It will take time. Management teams all over the world are busy supporting the health and welfare of their employees and other stakeholders, including First Nations communities in close proximity to the assets. As for the assets, management teams continue to review their contractual arrangements, evaluating the strength of their supply chain and working with host governments and communities.

Stabilizing the Balance Sheet

As operations close, pressure is of course increasing on balance sheets and cash flow. Where will the money come from? Existing shareholders are stepping up to shore up their investments. Orla Mining announced a bought deal LAST WEEK with significant support by their existing significant shareholders and this week, Osisko Gold Royalties closed a $75 million private placement with Investissement Québec, a long term Osisko supporter. Private Equity and specialty mining funds are similarly supporting their investee companies. Pala has announced support to Nevada Copper and Appian Capital has announced that it is open for business to support the industry.

M&A Activity

There is never enough M&A at the best of times in this industry and so why start now other than due to financial hardship or being “opportunistic”? Management teams only have so much bandwidth and are currently focused on the challenging job of stabilizing their own companies. There is little time left over to think about acquisitions. And how can site visits and due diligence exercises be properly completed when a good part of the world is in lockdown and mine sites shuttered? Yes, there will be creative use of VR and other technologies such as drones to commence due diligence, but confirmatory visits will have to be performed.

There are always a limited number of exceptions, such as the recently announced Endeavour/Semafo transaction, but it appears there that these two companies had been in discussions for some time with their diligence completed. Alio and Argonaut also recently announced an at market merger. Perhaps major shareholders/sponsors will use this as an opportunity to privatize companies and lower valuations. If nothing else, this unprecedented time demonstrates the need for companies to de-risk themselves by being multi-asset enterprises. This may include moving into diverse geographic regions, which comes with its own set of challenges.