

PDAC 2018: Mining sector gets back to work

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While PDAC 2018 was not on par with PDAC 2011 (where it seemed everyone was executing mergers and bought deals were the order of the day), in our view, 2018 can be summed up as the year the mining industry got back to work with greater businesslike focus than we have seen in recent years. There were still lots of cocktail receptions and dinners (our Osler reception was a great success and had a great turnout, although the food at Canoe was surely part of the reason), but serious talk of projects and deals permeated throughout the week.

Dealmaking

Forecasting the consolidation of the mining sector has proved to be especially difficult, as a number of us have been anticipating significant consolidation through M&A for the past four years without seeing activity levels that met expectations. However, at the risk of doubling down on an underwater investment, it appears the mining sector remains poised for consolidation. Major and mid-tier companies are looking at project pipelines to maintain mineral reserves and are taking notice of the growing market value discrepancies between the majors and the juniors. The unequal playing field for financing opportunities within smaller exploration companies is leading to M&A discussions in that space as well. However, there remains considerable caution as parties assess whether such transactions would be financeable and accretive to their shareholders. We may well be making the same commentary for PDAC 2019.

In the near term, property level transactions are likely an easier prediction. Property acquisitions and option/joint venture structures have been particularly active in recent months and seemed to be a focus of PDAC discussions. Interestingly, major and mid-tier producers have been particularly active, financing exploration teams through strategic alliances, generative programs and toehold investments. No doubt this is in part due to the sustained weakness of the mining capital markets, which have been highly selective in the projects, management teams and companies they have been prepared to invest in. While streaming, royalties, private equity investment and the completion of new mining IPOs in 2017 received lots of attention on the floor of PDAC, some pessimism remained around the ability of juniors and exploration projects to obtain key capital. In addition, the shifting of risk capital from mining to both cannabis and crypto-currencies was a commonly heard discussion topic.

New ventures

Despite ongoing market challenges, a number of new companies are being launched right now and many of them talked of IPOs and going public transactions. This likely bodes well for some capital coming back into the mining sector as these new companies tend to involve

experienced and successful management teams and financial backers (of the type and scale that have been able to raise needed financing). One of the more interesting aspects of these ventures is the degree of focus on the entity's capital structure – virtually from the date of inception. Gone are the days when a good project was seen as being capable of overcoming a less than optimal capital structure, and the entire sector appears firmly focused on returning value to shareholders.

It bears monitoring what will happen from a governance standpoint. While corporate governance has been an area of focus for regulators and some institutional investors, most junior companies that have been successful in this market have adopted a leaner approach to boards and management teams, which means that broader diversity has not been an immediate priority. As these companies grow and evolve, that will be an interesting area to watch.

Battery metals

Anyone have a cobalt or lithium project (or a project that can be renamed as such)? Battery metals continue to be the flavour of the day and a focus for exploration companies and investors. There has been a lot of ink spilled on this topic, but it is interesting that the market play continues to evolve, which suggests it may be more than just a fad. In particular, it will be interesting to see if copper projects benefit from the battery metals investment thesis, since copper utilization is also expected to significantly increase in a battery and electricity-powered world.

Summary

It is encouraging to see a sense of optimism return to the mining sector after a number of challenging years. While the sector could benefit from a significant discovery, it bodes well that exploration budgets are starting to increase again and geologists and engineers are back to doing what they do best.