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PDAC 2019: Lots to talk about

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Authors: James R. Brown, Alan Hutchison

In our summary of PDAC last year, we noted it was finally a time that "the mining industry got back to work with greater businesslike focus than we have seen in recent years." We're happy to say in our view that trend continued in many respects at PDAC 2019. However, while there were many discussions to be had and ideas and opportunities considered (on the floor, outside or at one of the nearly endless number of receptions), there is still uncertainty about the overall health of the mining industry and what the balance of 2019 will bring.

However, as we reflect on PDAC 2019 one thing that was not in short supply was talk amongst all industry participants of rumours, speculation and opinion on a number of intriguing topics. So as a summary of PDAC 2019, here are the things that people were talking about (or ought to have been talking about…).

The gold sector and the mega mergers

With gold prices having experienced a decent recovery from mid-2018 (though, admittedly it has lost some of its lustre recently), gold was back to being a key topic of discussion. But the seemingly constant headlines between Barrick and Newmont were a key topic of conversation at every turn – not just about that potential transaction but what it means for the Newmont–Goldcorp transaction; the integration of Barrick and Randgold; and the ripple effect that these transactions are expected to have on the rest of the gold sector as other companies consider their competitive position and non-core assets are divested. It remains to be seen whether the foregoing transactions will set a basis for more deal-making in the space (other than just the potential for divestitures of non-core assets from the gold majors), and what the timing of such deal-making activity will be.

We also saw and felt a small sense of wariness of some of the recent activist investor activity in the Canadian mining industry. 2018 represented the most active year to date for activist investors and it is not a trend we see disappearing anytime soon – particularly as share prices continue to lag behind rising commodity prices.

Certainly many of the junior miners noted their excitement about the conversations they were having with majors regarding potential opportunities – earn-ins, joint ventures, options. Underpinning the mega mergers is the reality that major companies need to replenish resource and reserve bases after a period of under-investment in exploration across the sector.

Other commodities? What other commodities?

As noted above, gold was certainly the flavour of the day for the conference. Though other commodity prices have generally increased since PDAC 2018, other precious and base metals took a backseat to gold. While certain specialty metals were frequently referenced (vanadium in particular this year), the focus on battery metals (particularly lithium and cobalt) witnessed in 2018 has waned. Declines in pricing and concerns over an ability to effectively develop producing assets seem to have impacted the exuberance of investors in the battery metals space.

(When) will capital come back?

While the juniors (in particular) were excited about prospective M&A activity, there was a very clear signal that access to capital remains limited. The mining equity capital markets are still tightly closed for most issuers and there is very little in the way of mining IPOs in the coming pipeline. The lack of available funding is making it hard for issuers to operate meaningful exploration and drilling programs that could result in a new discovery. Indeed, translating exploration success into quality resources and reserves remains a significant challenge for junior companies.

The majors are funding a significant percentage of exploration, either directly or through strategic investments, alliances and earn-ins with junior companies, which may exacerbate the inequality among junior companies. Given current stock prices, many juniors are hesitant to want to engage in dilutive issuances, though the need for funding to carry on is driving many to consider all available options. There was very much a noticeable divide on the Investors Exchange floor between companies in terms of foot traffic to booths.

Without a marked increase in funding to the sector and a the re-emergence of an IPO market, we do have some concerns about hopes of growth in the junior sector in 2019.

Sustainability

In the wake of the tragic tailings dam collapse in Brazil, there was a great deal of discussion regarding tailings dams, potential regulatory responses and social licence in the mining sector. The Canadian mining sector is viewed as a leader in sustainable mining practices around the world, and the work of the Mining Association of Canada on sustainable mining and tailings management is regarded as a model for future operations and development. However, a model operating code requires acceptance from industry participants and local communities to become established, and the work of the industry as a whole to establish a social licence to operate will be critical to achieving regulatory certainty necessary for mining companies to develop and operate long-term projects and for governments and local communities to support such projects. This is a difficult subject and will likely take more time to settle, but this is a topic that could probably be talked about more in the overall mining industry, and not just in a corporate social responsibility context, as it will likely pervade all aspects of how mining companies operate in the future.

Summary

Overall, PDAC 2019 was a success with continued improvement on outlook and activity, so it is with continued optimism that we view the mining sector in North America. No doubt discussions will continue about possible ways to generate value in the mining sector and, while we do expect some M&A activity in the space in 2019, it remains to be seen how active the market will be. We're admittedly less optimistic on the financing side and look forward to the days ahead when capital comes back into the sector.