



Risks and opportunities for mining

Global outlook 2021

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Pivotal time

When mining executives from across the globe responded to 2020's Global Outlook Survey, no one had heard of COVID-19. At the time a global pandemic was a hypothetical disaster scenario far from front-of-mind.

How have 12 months of unprecedented disruption and uncertainty changed this outlook? Well, the remarkable core insight of this year's Outlook is the issues impacting the industry remain much the same as they were pre-coronavirus.

Like other industries, mining operations were forced to scramble to respond to the pandemic, to ensure the safety of employees, the communities in which they operate, and the security of supply chains. But while the ongoing impact of the pandemic will continue, the mining industry appears to be rapidly recalibrating. And our survey suggests mining companies are in a strong position to capitalize on a fresh raft of opportunities.

The pandemic may have increased the risk associated with political instability and economic downturns, but at the same time it has prompted

enormous stimulus spending in most major jurisdictions, driving demand for commodities. Meanwhile, volatility in global markets has seen investors flock to safe havens, driving a surge in precious metal prices, such as gold. COVID-19 also seems to have accelerated the focus on climate change and efforts to decarbonize.

Mining executives are increasingly focused on ESG risk, especially when it comes to climate change and meeting rising community expectations. The days of considering ESG factors as 'soft' secondary risks are long gone given how recent years have taught us that mistakes can carry very hard consequences. The survey also notes a growing emphasis on environmental risks, including new regulations, and sustainability, illustrating the sector is paying attention to the components of ESG.

With future demand appearing healthy in most areas and mining companies focused on maintaining healthy balance sheets to withstand cyclical volatility, the industry appears in a strong position to seize on a post-pandemic global recovery.



Trevor Hart
Global Head of Mining
KPMG

“This survey reveals an optimistic sector confidently dealing with new challenges in 2021. Stakeholder expectations are higher than ever but as the world recovers from COVID and accelerates to carbon neutrality – so are the opportunities!”

COVID-19's impact on mining

The global pandemic impacted on both micro and macro levels. Given the nature of mining, a central focus of any operation will always be maintaining the safety of workers and the broader community. COVID-19 underlined the importance of the health and wellbeing of a workforce, particularly for those in remote areas where infection would have significant ramifications. It is interesting to observe that 2020's concerted focus on health, including issues of fatigue, isolation, and supporting mental wellness, coincided with an improvement in safety statistics across the industry.

The global disruption to supply chains has also seen organisations building in more optionality and ushered in further digitization of logistics. COVID-19 has shown the risk of bottle necks when it comes to supply chains, and the industry is addressing that.

While the pandemic may remain with us, to varying degrees across different jurisdictions, there are signs of early recovery. Significant capital is flowing, as governments look to kick start economic growth. Construction, particularly a focus on green energy transitions, will support demand for raw materials.

Industry identified risks

	2021		2020
—	Commodity price risk	01	Commodity price risk
NEW	Global pandemic	02	Permitting risk
↑	Economic downturn/uncertainty	03	Access to capital including liquidity
—	Community relations and social license to operate	04	Community relations and social license to operate
↑	Environmental risks, including new regulations	05	Political instability
↓	Permitting risk	06	Economic downturn/uncertainty
↓	Political instability/nationalization	07	Regulatory compliance changes, environmental risks, new regulations
↓	Access to capital, including liquidity	08	Global trade war
—	Ability to access and replace reserves	09	Ability to access and replace reserves
NEW	Regulatory and compliance changes/burden	10	Tailings management

Key findings

The survey paints a picture of a resilient sector responding in an environment of complex and diverse risks.

Commodity price risk remains the top risk the industry faces, while the new addition of global pandemic risk at number two is unsurprising. Economic downturn and uncertainty rounds out the top three, reflecting the significant volatility the sector has faced in 2020. Interestingly, companies now rank access to key talent as the number nine risk their own organizations face, perhaps reflecting restrictions in travel across the globe.

ESG-related risks remain prominent, with community relations and social license to operate unchanged from its previous position of number four. Environmental risks, including new regulations, jumped to number five up from seventh spot last year. Overwhelmingly, surveyed companies agreed they now need to have a clear, measurable ESG strategy. Yet around a third of respondents noted investor expectations are still not well understood or consistent across the market.

Concerns about access to capital, political instability, ability to access and replace reserves, and permitting risks all remain prominent on the risk landscape, although each has been marginally downgraded from the previous year. Meanwhile, the emergence of regulatory and compliance changes/burden enters the list in tenth position.

Change is the only certainty

This year's survey again found commodity pricing is the top risk faced by mining leaders, both with regards to the industry as a whole (49%) and their own companies (58%).

Of note, large cap companies¹ saw economic downturn and uncertainty (44%) and environmental risks, including new regulations (39%) as a greater risk than commodity prices (34%).

Despite global volatility, there is a high level of optimism among mining executives, with two-thirds confident about their company's own growth – despite being surveyed amidst a global pandemic.

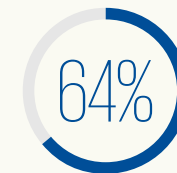
Of note, a higher proportion of companies feel optimistic about their own outlook and growth in the next 12 months, compared to the industry. Organic growth and technological transformation are identified as key strategies for growth as is M&A, reflecting the majority of mining companies who agree on the need for the industry to consolidate and embrace new business models.

While the cyclical nature of commodity prices is tied closely to global growth, the sector has strengthened balance sheets and generally sought to improve its capacity to withstand volatility. The macroeconomic outlook is also encouraging, with worldwide government stimulus and structural shifts in energy production sending strong price signals for future demand.

While geopolitical and trade tensions remain, the risk of a global trade war has slipped from the top 10 risks facing the industry. Political uncertainty and economic instability are unlikely to ease in the short to medium term. The majority (54%) of surveyed companies agreed on the need to embrace new ways of doing business, while two-thirds (64%) agreed the industry needed further consolidation. Further M&A will likely continue, as organisations look to insulate themselves from risk and continue to deliver shareholder value during global upheaval.



54% agree that today's companies need to embrace new business models such as strategic partnerships, private equity funding and Public Private Partnerships



64% respondents agree that the mining industry needs to consolidate to manage costs and risks more effectively going forward

¹ Large companies are defined as having a market cap of more than US\$ 5 billion

Community and social expectations shaping business strategy

ESG now dominates boardroom conversations in every mining company. This significant cultural shift, particularly towards meeting community expectations, is reflected in the survey. Respondents overwhelmingly (91%) agreed that today's mining companies need to have a clear and measurable ESG strategy, while 83% said success is now measured against these ESG targets.

This holistic view of success means that meeting regulatory measures is now the bare minimum. Maintaining a social license and meeting community

expectations is rated the number four risk. Indeed, the consequences of miscalculating this risk is no longer hypothetical with fallout from high profile events seen in 2020 underscoring the importance of ESG.

Community expectations now shape business strategies, but they may not necessarily be clearly understood. Only a third (34%) agreed that investor ESG expectations and measures are clearly understood, while 41% disagreed.

This suggests communication with the community and investors goes both ways – companies need to be able

to hear what they want, and then demonstrate they are acting on it. Being able to communicate with stakeholders, as well as developing sector-wide goals and solutions to ESG challenges are a priority for the sector to demonstrate sustainable value for shareholders and the community.

Climate change remains a defining issue. It is no longer just about operating responsibly, and the adoption of carbon neutral goals will see business models change and portfolios readjust. Meanwhile, the actual impact that a changed climate will have on future operations is yet to be fully understood.

ESG risks ranked



ranked community relations and license to operate as top ESG risk, 29% environment, 15% tailings, 12% climate change including natural disasters



agreed that investor ESG expectations and measures are clearly understood



agreed that today's mining companies need to have a clear and measurable ESG strategy

Technological change is firmly seen as an opportunity

The belief technology is a positive rather than a risk is now almost universally accepted in the mining sector. An overwhelming majority (82%) of survey respondents identified technological disruption as an opportunity rather than a threat.

But just how this disruption will affect players within the sector is still being worked through. Respondents were split on whether disruption would weaken or eliminate traditional leaders, with 25% agreeing it would, while 33% disagreed. The view of what technological advances mean is split as well, with 46% of respondents believing their organisation is actively disrupting the sector. There is a geographic element to this – KPMG has

observed a trend in Australia of greater technology adoption than North America, perhaps reflecting the scale of Australia's diversified mining sector.

There is a growing appreciation that innovation will see jobs shift, rather than be replaced entirely. More than half of respondents (57%) saw technological adoption and disruption as situational, rather than wide-ranging. Within the adoption of technology comes a social licence element – there is an imperative to keep local jobs and benefits.

While the sector will continue to embrace small projects, such as back office automation or improved safety measures, large scale massive transformation is likely still years away.



82% of respondents view technological disruption as more of an opportunity than a threat



25% agree that disruption in the sector will weaken and/or eliminate some of the traditional leaders, **33%** disagree

A positive outlook from a resilient sector:

Respondents were asked about their optimism on the outlook for their company's growth prospects compared to the previous year.

Despite the disruption of 2020, nearly half of the respondents (49%) were more optimistic about their company's outlook in comparison to last year, compared to 38% the previous year. There was also growing optimism for the industry's outlook, with 37% more optimistic for growth, compared to 33% a year earlier.

Top strategies for growth



Organic Growth



Innovation and technological transformation



M&A



Productivity gains from existing operations

Companies continue to focus inward first, with the majority seeing organic growth, innovation, and productivity gains as top strategies for growth. Globally, government stimulus is being directed into energy transition projects. This construction boom will continue to drive demand for raw materials, such as copper and nickel. Some sectors will continue to face growing headwinds, such as coal. We are seeing a trend towards the "mergers of equals", as part of the broader consolidation trend.

Pessimism about access to capital also remains a theme this year. Nearly half of respondents (45%) agreed the ability for the industry to access the traditional sources of capital has deteriorated in the last three years, while 39% said access to capital is a significant constraint and required them to change gears when it came to strategy.

New ways to raise and access capital are emerging. Investments by streaming and royalty companies are becoming increasingly common, funding exploration and development with cash up front.

Conclusion

The positive outlook from mining companies indicates the sector is largely adapting to the headwinds it faces. New business models and strategies, embracing and communicating ESG initiatives, and strengthening balance sheets has delivered a more resilient sector.

The global upheaval brought in 2020 has tested mining companies and while there remain significant challenges ahead the landscape presents abundant opportunities as well.

For more information about this survey and risk management for today's global mining industry, contact your KPMG representative.



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