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Miners in for ‘good growth’

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The new global head of mining for accounting giant KPMG expects the momentum behind the resources sector to continue to accelerate this year, pointing to the combination of a healthy macro outlook and the strong operational and financial position of most mining houses.

Australia’s mining sector has enjoyed a solid past couple of years thanks to a combination of recovering commodity prices, falling costs and favourable currency movements, with the recovery unwinding much of the damage sustained during the downturn.

Trevor Hart, who was promoted to KPMG’s global mining head in March, told The Australian that the macroeconomic outlook would help support the mining sector in the year ahead.

“A lot of the conversations are about China, as they should be, but China is still really strong and there is a good-quality growth story there,” Mr Hart said. “When you couple that with some of the growth that’s emerging in other important economies across the globe, there’s a really strong picture globally for the next 12 months or so that will really underpin volumes that are coming through, and will also have that price stability to equal another good growth year for them.” The positive outlook, he said, would be driven by more than just China. “There’s a strong growth picture in the US, there’s some uptick in Europe and for us in Australia the ASEAN region is starting to come through as well,” he said.

“So when you look at that global growth picture, there’s a healthy backdrop.” A healthy macroeconomic outlook would also help the miners take advantage of the productivity improvements they’ve made in recent years, including the increased reliance on automation in many of the larger companies. Iron ore heavyweights BHP Billiton, Rio Tinto and Fortescue have all invested heavily in automating large portions of their Pilbara trucking fleets and automated drill rigs and, in Rio’s case, an attempted automation of its Pilbara train network.

Mr Hart said the productivity gains made through automation could grow even further as companies learned more about the best ways to put data to work.

“It’s not just about moving tonnes through the system efficiently, it’s also about the data that comes from some of this technology,” he said. “That is giving better information and quicker information so miners can make the changes that will drive more productive and more efficient operations as well.” Mr Hart said he expected merger and acquisition activity to increase both in the resources sector and the mining services sector as investors started to once again look for growth, even though asset valuations were starting to “warm up”.

A key test for the sector, he said, would be balancing investor expectations for higher cash returns and improved capital discipline, with concerns about a lack of obvious growth projects.“The challenge for the miners is growth and how they deploy surplus cash for the right growth opportunities. That could be through M&A or organically through expansion,” he said.

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