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Client Alert

Global Mining and Metals Industry Group

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Everything Old is New Again – Financing trends in the mining industry making a comeback

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Until last year, mining companies had little trouble raising funds. But, as the boom in the price of commodities has peaked and passed, the markets remain volatile for miners. Profits have plummeted by up to 49%[1] for the top 40 mining companies, and by even more for many others.

The global equity capital markets are essentially closed to juniors and mid-cap players and majors have been unwilling to participate at the current multiples. In fact there was not a single TSX mining IPO in the first quarter for the first time in a decade.[2]

There has also been a structural shift in investor preferences from equity to fixed income instruments, and this, coupled with the contraction of the bank loan market, has seen bonds outstripping loans (both corporate and project finance) in the mining sector.

Certain non-conventional funding sources that have long been used by juniors particularly in emerging markets, are now being used by mid-cap and major players too. The result? High-yield bonds, streaming agreements, convertible debt, and forward sale arrangements are back.

These financing tools were popular in the late 90's prior to the commencement of the current mining boom and have emerged in the mining cycle on many occasions. More recently, streaming, convertibles and forward sale agreements were dusted off in the post GFC environment, as reasonable assets or corporates sought to refinance facilities up for rollover in the tight credit market.

High yield bonds with restrictive covenants applicable to the issuer and restricted subsidiaries are also coming back into favour (in a relative sense at least). A good example is the US$500 million 9.5% issue by Hudbay Minerals used to finance the Constancia copper mine in Peru in 2012. In June 2013, Hudbay added a further US$150 million 9.5% issue, and simultaneously downsized its corporate revolver by the same amount.

Metal streaming was traditionally targeted at small-cap miners who had difficulty in obtaining debt financing. Now mid-cap and major players are taking advantage of the less restrictive terms (in particular the preservation of management control and offtake rights) that are possible under these arrangements. Rather than seeking an off-take agreement, project companies are agreeing to sell a fixed percentage of future output (usually a precious metal) to the streaming company at a fixed price in exchange for an upfront payment structured as a deposit. Recent examples include the Vale-Silver

1 PwC (2013), *Mine: A confidence crisis*

2 PwC (2013), *Real estate up, mining at record low in uneven IPO market*

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Wheaton US$1.9 billion gold stream from Vale copper and nickel mines and the Franco Nevada US$1 billion precious metal stream from the Inmet (now First Quantum) Cobre Panama project.

For sub-investment grade miners who are likely to require further equity investments, convertible debt facilities have been providing some solutions. Typically, these involve a package of loan (term loan/revolver/asset-based) and warrants. Coalspur, Astur Gold, Wolf Minerals and EMED have all utilized convertible debt in recent deals.

For projects already operating, forward sale agreements are being used in new ways for hedging as well as for finance. That is, a fixed amount of product is agreed to be sold at a fixed price at a future date, to enable immediate working capital.

Going forward, junior and mid-cap players will be anxiously finding ways to address their limited access to capital and the majors will be looking at how they can distribute their low-cost debt. The reemergence of these unconventional funding mechanisms will no doubt continue to play an important role in years to come, to fill the gap created by the evaporation of the equity capital and bank loan markets for sub-investment grade miners.

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