School of Mining Engineering

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DUE DILIGENCE AND VALUATION OF MINERAL ASSETS FOR DEBT FINANCING: PRACTITIONER'S PERSPECTIVES

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ABSTRACT

The metal and mining industry has remained one of the major consumers of investment capital required to develop the Zimbabwean economy. The magnitude of investment needed by the sector required a mixed capital structure and as such mining companies are leveraging on debt facilities available in the banking sector. The performance of Zimbabwe mining loan books however is very poor as the non-performing loans are averaging 20% against an industry target of 5%.

The high number of non-performance mining loans has caused most banks and creditors to withdraw due to poor return on investment. Minimal participation by banks and other credit institutions has resulted in the mining sector being under-capitalised for years. The Chamber of Mines of Zimbabwe has estimated that the mining industry requires over US$5 billion in the next five years for various reasons namely: exploration, developing new mines, opening closed mines, and increasing installed capacities. The presence of high non-performing mining loans prompted the researcher to conduct a study on the investment framework that debt financiers can use when dealing with the metals and mining sector. The researcher also aims at establishing whether the banking sector acknowledges the importance of mine due diligence and valuations and the skills required to undertake this exercise. To undertake the exercise, thirty-five closed-ended questionnaires were distributed to the target population, five structured interviews were conducted with executives, and Focus Group discussions were done with personnel with mining finance experience. This helped the researcher to conclude the investment framework used by debt financiers for the mining sector.

All participants pointed out that mine due diligence and valuation are the important key steps in investment finance. The participants also pointed out that the due diligence should consist of mining experts, metallurgists, geologists, legal experts, environmental experts as well as competent mineral asset valuators who should do business valuation of target mineral assets. Although the participants pointed out these issues, executives indicated that banks do not have the skills required to undertake due diligence and valuation of mineral assets which results in asset selection and deal structuring risk which is one of the main reasons why mining loan books have high non-performing loans. Based on these findings, the researcher strongly recommends mining schools in Zimbabwe start offering courses in due diligence and mining investment finance. Banks should also outsource the required skills from the region and should also consider legal experts and human resources experts as key members of the mine due diligence team.