ABSTRACT

The period from 2006 to 2015 was a turbulent one for mining companies. The end of the 2000s commodity super cycle resulted in all-time high market values for most commodity based companies, followed by a rapid decline in value with the onset of the Global Financial Crisis in 2008 and a similar rapid recovery following this. Whilst much of this change in value was driven by commodity prices, the inconsistent performance between companies suggests that there are other factors affecting mining company value.

To determine the key drivers of company value, four diversified and international mining companies which represent close to 50% of the 2006 industry revenue were selected for analysis. These were Anglo American, BHP Billiton, Rio Tinto and CVRD-Vale. Financial and production data was collected to analyse different potential value drivers. Because of its suitability for comparison of company value, the market based valuation approach was selected as the company valuation technique. Enterprise value (EV) was the metric used for company value since this provides a measure of the real market value of a firm as a whole business. Eight potential value drivers, which include production output, commodity price, revenue, EBITDA margin, EBITDA multiple, gearing ratio, net debt to EBITDA ratio and ROCE, were selected for analysis. Each potential value driver was tracked against EV to determine if there was any correlation between the value driver and EV. Also, the Pearson correlation method was used to determine correlation between each potential value driver and EV.

Production output and commodity price in isolation were found not to drive company value. However, when combined to calculate revenue, had a very high correlation to EV with an average Pearson coefficient of 0.8. EBITDA multiple was also found to be a key driver of company value, with this metric closely aligned to revenue (Pearson coefficient of 0.6). The two debt metrics, gearing ratio and net debt to EBITDA were found to only have a correlation to EV in times of declining commodity prices and revenue. EBITDA margin and ROCE were found to have no correlation to EV and as such were not considered to be key drivers of company value. Mining companies must ensure that they focus on the correct value drivers to ensure those they influence do impact the company value.