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Discussion-Opinion-Editorial™

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Hony. Chief Editor

How the Mining Industry Navigated Against Currents in the FY 2021: A Tale of Two Companies

Rio Tinto

Rio Tinto's 2021 Full Year Results highlight the underlying strength of its business. Rio has continued to safely run world-class assets and continue to work hard to improve operational performance. This is despite challenging operating conditions from COVID-19 disruptions. The recovery of the global economy, driven by industrial production, resulted in significant price strength for the major commodities it deals with. As a result, it achieved record financial results with free cash flow of $17.7 billion and underlying earnings of $21.4 billion, after taxes and government royalties of $13.0 billion.

The performance came in the back of a similar period of strong demand and high commodity prices a decade ago. In 2021 it converted a far higher proportion of strong commodity prices into earnings, and it has been an opportunistic player in dealing with the price from the market with good anticipation. As a Covid-19 related market response it had strict capital allocation, trusting due diligence for more than ever before. It could raise more cash from the sales as it converted the earnings into far higher free cash flow. This has enabled it to declare record dividends of $16.8 billion, a 79 per cent pay-out ratio. As a result the balance sheet is the strongest it has been for at least 15 years.

In the year 2021, it has also made important shifts in how it engages, how it sees itself and what really matters." We have become more humble and better listeners – learning further from Juukan Gorge and also learning directly from its team members as a result the often-confronting Everyday Respect report into workplace culture that we commissioned" CEO of Rio Tinto, Jakob Stausholm said. JMMF reported the Juukan Gorge fall out in a previous issue.

Few things stand out: Changing the culture of operational excellence, keeping the cost in control,opportunistic pricing, managing credit better, trusting and respecting employees and the stakeholders, becomingleaner and less hierarchical and empowering people with empathy. In all it drove outcomes, not just setting targets (and not following them up!).

Few other points of Rio Tinto 2021

a. Safety: Its managed operations were fatality-free for a third successive year. The all-injury frequency rate

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Table 1. Rio Tinto 2021 results at a glance

At year end	2021	2020	Change
Net cash generated from operating activities (US$ millions)	**25,345**	15,875	60 %
Purchases of property, plant and equipment and intangible assets (US$ millions)	**7,384**	6,189	19 %
Free cash flow[1] (US$ millions)	**17,664**	9,407	88 %
Consolidated sales revenue (US$ millions)	**63,495**	44,611	42 %
Underlying EBITDA[1] (US$ millions)	**37,720**	23,902	58 %
Profit after tax attributable to owners of Rio Tinto (net earnings) (US$ millions)	**21,094**	9,769	116 %
Underlying earnings per share[1] (EPS) (US cents)	**1,321**	770	72 %
Ordinary dividend per share (US cents)	**793.0**	464.0	71 %
Special dividend per share (US cents)	**247.0**	93.0	166 %
Total dividend per share (US cents)	**1,040.0**	557.0	87 %
Net cash / (debt)[1] (US$ millions)	**1,576**	(664)	
Underlying return on capital employed (ROCE)[1]	**44 %**	27 %	

Figure 1. Jakob Stausholm, CEO of Rio Tinto.

deteriorated slightly to 0.40: fatigue, labour shortages and other pressures from COVID-19 have heightened the safety risk in day-to-day operations.

b. Workplace culture: Commissioned as a part of its commitment to ensure sustained cultural change across its global operations, it undertook a review launched in March 2021 to better understand, prevent and respond to harmful behaviours in the workplace. It commits to implement all recommendations from the report.

c. Decarbonizing: In October 2021, it unveiled a longer term strategy to ensure to thrive in a decarbonising world, while continuing to pay attractive dividends in line with its shareholder returns policy. To deliver its strategy, it set a new target to reduce the Scope 1 and 2 carbon emissions by 50% by 2030, more than triplingits previous target, and is bringing forward it's 15% reduction in emissions to 2025 (previously 2030), supported by an estimated $7.5 billion of direct investments between 2022 and 2030. These projects deliver a range of economic outcomes but in aggregate are value accretive at a very modest carbon price. Most importantly, they safeguard the integrity of its assets over the longer term and reduce the risk profile ofitscash flows.

d. Capital allocation: It has made significant progress with its Battery Minerals portfolio in 2021, signing a binding agreement to acquire the Rincon lithium project in Argentina.

Anglo American

Anglo American plc ("Anglo American") attained its strong operational and financial performance during 2021 and its sector-leading growth.

Covid-19 has continued to pose challenges for it in 2021, particularly in those sites and countries where vaccination uptake has been lower. It has kept its focus on keeping employees and communities safe and encouraging vaccination at the earliest possible opportunity.

In its guidance for the future Anglo American claimed to be a resilient and agile business that is set to deliver 35% growth over the next decade at an attractive 50% margin. It is also increasing its near term performance improvement target to $3.5 - $4.5 billion by 2023, as it plans to accelerate the delivery of its P101 and technology programmes, while also bringing growth projects onstream. First and foremost is itsQuellaveco project in Peru in mid-2022, where it has also increased early copper production plans to create additional value.

The company is committed to itinternal climate change initiatives as it considers it a defining challenge of this time, and it has a crucial role to play in supporting the transition to a low carbon economy by producing many of the metals and minerals that enable decarbonised energy and transport. It also aims tomoving at pace to reduce its emissions, and has committed to operate carbon neutral mines by 2040, while having an ambition to reduce its scope 3 emissions by 50% in that same timeframe."

The return on capital employed of 43% was well above its targeted 15% through-the-cycle return, as it should be in times of strong pricing, and mining EBITDA margin rose to 56%. It is resolutely committed to capital discipline and maintaining a strong and flexible balance sheet. At the end of 2021, net debt of $3.8 billion, or 0.2x underlying EBITDA, reflects the strong cash generation of the business, partially offset due to its investments in growth. The proposed final dividend of $1.18 per share, in line with its40% payout policy, in addition to a special dividend of $0.50 per share, will bring its total return to shareholders in respect of 2021 to $6.2 billion (including its share buyback), equal to $4.99 per share.

Anglo American maintained a strong performance during 2021 and expects further improvement in 2022:

1. 2021 production up 7%: Strong PGMs performance and higher rough diamond demand;
2. 2021 unit costs up 10%(1): Above CPI inflation and some production slowdowns;
3. 2021 capex of $5.2 billion: Lower due to Covid delays and supply chain disruptions;
4. 2022 unit costs expected to increase by 4%;
5. 2022 forecast capex of $6.2 - 6.7 billion, reflecting 2021 deferrals and Woodsmith addition.

On the financials, its balanced approach is supporting sequenced investment in value accretive growth and considerable long term business improvement, alongside attractive shareholder returns. It has delivered $10.3 billion in cash returns to the shareholders since 2017 and $4 billion in H2 2021 alone. Its ongoing investment in the business also supports its emissions reduction objectives, and it therefore expects a normal cycle of capital investment to continue to fund the majority of the operationaldecarburization projects.

Mark Cutifani,Anglo's CEO added: "Anglo American offers an increasingly differentiated investment proposition centred around sustainable performance and high quality, responsible growth. Combined with its integrated approach to technology in pursuit of the safer and more sustainable supply of materials essential to the energy transition and growing consumer demand patterns, we are well positioned to meet the expectations of itsfull breadth of stakeholders across society."

Few other points of Anglo American

1. The company makes progress in reducing fatal incidents and its broader safety processes and procedures. Sadly, however, it still lost one colleague in a vehicle incident in Peru. Its total injury frequency rate tracked up marginally after multiple years of progressive improvement, reflecting the changed operating configurations necessary to manage Covid-19. Its health focus remains on helping keep its people protected from Covid-19.
2. In many ways, the pandemic has proven more challenging in 2021, particularly where vaccination roll-outs have been slower and uptake lower. It has provided significant monetary and other support to accelerate vaccination rates, including by using its own health facilities and encouraging vaccination at the earliest opportunity.
3. Its balanced investments are driving margin-enhancing volume growth of 35% over the next decade, including copper from Quellaveco due to start up mid-year.
4. The large majority of its output and investment capital is focused on future-enabling products – metals and minerals essential for decarbonisation and to meet global consumer demand.

Figure 2. Mark Cutifani, Chief Executive Officer of Anglo American.

References

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