

Tackling mining's funding gap



The mining industry, including Australia's large iron ore operations, is increasingly reliant on innovative financing solutions.

In the face of turbulent commodity prices, conventional funding routes for mining companies have either closed or become problematic. Paul Mitchell, Falcon Group's Australia and New Zealand Regional Head, explains how specialist financiers can help.

NO industry has felt the impact of China's economic slowdown more keenly than the mining sector, which has in the last couple of years seen a massive drop in the price of everything from iron ore, aluminium and coal through copper, zinc and lead.

Against the backdrop of falling commodity prices, access to finance has become one of the key challenges facing many industry participants. As a result, innovative financing solutions, such as those offered by specialist financiers, are becoming increasingly prevalent.

Accessing traditional financing

With the decrease in Chinese demand, participants across the mining sector have been squeezed by a downturn in commodity prices. In 2016, iron ore prices swung between US\$38.30 and US\$83.58 per tonne.

This change is, of course, in direct contrast to the rampant activity witnessed in the period leading up to 2008 – and from 2009 to 2011 – when many companies dramatically increased production in a bid to capture higher prices.

In a market characterised by volatility and fluctuating demand, a number of banks, faced with a lack of returns and continued constraints on lending since the global financial crisis, have scaled back activities in the sector.

In Australia, for instance, the deteriorating fortunes of the mining industry have caused major lenders to become more risk-averse and increasingly selective and expensive, with respect to financing.

Perhaps hardest hit are Mid-Market companies who are impacted most severely by a lack of liquidity.

More specifically, as debt is often essential to mining projects, a drop in revenue during poor economic conditions makes it difficult for companies to pay down high levels of debt.

However, despite being working capital poor, many mining businesses are asset rich and this is where specialist financiers step in.

A new go-to funding option

Limited access to capital through traditional routes has inspired some mining companies to seek non-traditional, but no less secure, funding practices.

Asset-backed lending, for instance, enables businesses to turn their assets into working capital.

This particular route tends to focus more on collateral, than on credit history or cash flow – making it well-suited to the natural resource industry. Certainly, asset-backed solutions are critical in helping businesses to survive and prosper during times of economic hardship, helping to generate the working capital they need to operate.

Given the capital-intensive nature of the mining cycle, flexibility and speed are also crucial factors when it comes to financing. Specialist financiers' take a transactional approach – that is, review each transaction and evaluate it based on merit – and as such, are able to tailor the terms of financing arrangements to the individual businesses, allowing for greater flexibility.

Moreover, as the mining industry, particularly in the Asia Pacific region, becomes ever-more interconnected, mining companies may also need to raise finance across borders. This is, of course, particularly pertinent for companies that use mining states, such as Perth, as trade hubs for the rest of the world.

Possessing a strong global presence, developed networks and in-depth local experience is a characteristic typically, but not exclusively, found in banks. Many non-bank financiers and some specialist financiers, such as Falcon Group, have both the necessary extensive global networks and critical understanding of the regulatory and cultural intricacies of every local market they serve.

Branching out beyond traditional sources of funding also adds one final, but significant, benefit - diversification. Embracing new players doesn't necessarily mean cutting ties with more familiar institutions, it just means enjoying the security of both.

The arrival of specialist financing in Perth means the mining industry now has more choice and greater combinations of funding partners available. Certainly, collaboration between financiers means the best of both worlds, and also means that companies can diversify their options and mitigate risk.

With unstable commodity prices, sluggish global trade growth and weak bank appetite all posing a concern for mining companies, perhaps a new approach, and some innovation is the boost the Australian mining industry needs.

Falcon Group is a leading international financial services business. It provides bespoke finance to companies throughout the world, enabling them to achieve their corporate objectives. Falcon Group exists to provide finance to businesses to help them manufacture, create jobs, export and grow in industries across Europe, the Middle East, Asia Pacific and Latin America.

The group provides tailored and flexible financing options that enable mid-cap companies to grow quickly and efficiently as well as assisting large corporations to enhance growth.