

Riders on the storm

It may be stating the obvious but 12 to 18 months ago probably was not considered an ideal time to be kicking off a new business. By **Wally Graham**

The global financial crisis led to the plug pulled on many contracts between major mining companies and big name consultant firms.

Redundancies became commonplace for mining sites around the country and it looked as though we were in for a long wait before a rosier picture was to emerge.

However, there was still some endeavour to be found among the gloom and a few small consultancy players chose to dip their toes in the stormy seas.

One such company, Xstract Group, emerged out of Brisbane 12 months ago with the plan of ignoring the GFC and getting on with the job at hand.

"We have probably been one of the most actively growing companies in mining consultancy through the GFC," Xstract managing director and principal consultant Mark Noppe told *Australia's Mining Monthly*.

"On average, we've hired two people a month since February last year so we will be pretty close on 25 staff from a start of two 12 months ago."

Convinced that the GFC could not last forever, the company backed the experience of its growing team and looked for work.

"We looked around, based on our experience," Noppe said. "Most of us have

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- Launched at start of GFC.
- Managed to survive the ensuing crisis.
- Both firms starting to grow.

been in the consulting game for several years."

"People were telling us that the workload was perhaps 40 per cent down on the previous year.

"We looked at that and considered in terms of experience, principals, and knowledge we probably stood a fair chance of winning 60 per cent of the work that was still out there."

Glastonbury Mining Consultants is another fledgling mining consultancy to safely make it through the GFC storm.

With timing that director Andrew Glastonbury described as not being "terribly wonderful", the company launched in August 2008.

Glastonbury told *AMM* that although his timing may have been off he was fortunate in that a lot of work he did manage to pick up was with people he had encountered previously

throughout his career. Having worked in the industry for more than 25 years he had many contacts to utilise.

"Lots of the work I got was probably more word of mouth than necessarily lots of new clients I had never done any work for before," Glastonbury said.

"But I think this year is going to be a bit more new client-based. I think there is a little more happening at the moment."

Noppe agreed, indicating that although Xstract had some difficulty developing a plan at the beginning of 2009 the company only had one month that did not perform as it had forecast.

As July heralded the new financial year many companies were a bit nervous about how their bottom lines would hold out.

"Our colleagues in other consulting businesses have confirmed that last July was a bit of a holding your breath time," Noppe said.

"In August, we saw some significant changes. Then around October we actually saw investment in companies and interest in preparing independent expert reports and information for IPOs started to materialise."

Like Noppe, Glastonbury is highly optimistic about where the industry is currently positioned.



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With more exploration funds flowing, consultancy work is changing towards feasibility studies once more.

This optimism stems from the return to favour being enjoyed by junior companies with equity markets becoming freer and giving them more cash to access.

“To date I guess more of our business has been assisting with tenders for existing contractors or mine owners helping on the tendering and pricing side of things,” Glastonbury said.

“It comes down to the skills and expertise you can offer over the size of your company.”

– Glastonbury Mining Consultants director Andrew Glastonbury

“From what I have seen, I think 2010 will be more pre-feasibility and feasibility study-focused helping some of the new mining plays make the transition from exploration to becoming producers.”

Runge starts to climb up on good cash flow

THE severe belt tightening caused by the global financial crisis that caused so much grief for the mining industry last year has, ironically, left behind a positive legacy.

Companies reacted to the GFC by reducing, in some cases total non-payment of, dividends and the market witnessed a welter of capital raisings towards the end of the year.

This led to a substantial reduction in net debt and a significant improvement in gearing levels for a number of mining companies resulting in some strong cash generation.

Although it may not be flowing with the freedom and alacrity seen during the boom, the mining industry's prodigal son is making a welcomed return.

Supporting this pecuniary stream is the recent rise in world commodity prices added to the impulsive cancellation and scaling back of developmental projects throughout the year by anxious executives eager to constrain capital expenditure.

According to the Citigroup Global Markets analysis, free cash flow (FCF) yields for major companies are back at 2007-08 bull market levels.

“By the end of 2011 we forecast the bulk of the Australian mining space to be in a net cash position [Fortescue Metals Group and Rio Tinto notable exceptions],” Citigroup said.

“Twelve months ago we were asking where

the cash is coming from. Now we are asking how they will spend the surplus cash.”

Looking at FCF yields for 2010 on base and spot price assumptions, Citigroup forecast the Australian mining sector to generate \$18 billion of surplus cash (\$24 billion on spot) rising to \$25 billion in 2011 (\$31 billion on spot).

“Cash generation and yields are moving back to peak cycle levels and indicate both the strong commodity prices, but also the lack of near-term projects to consume the cash,” Citigroup said. “If commodity prices stay high and demand stays strong, we would expect the return of some significant project developments (good news for contractors).”

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Both companies refuted the idea that as they were smaller than some companies operating within the consultancy sphere they had less to offer.

Each backed their shared company values of expertise, experience and reputation to be important factors in what their clients were looking for.

"It comes down to the skills and expertise you can offer over the size of your company," Glastonbury said.

"Part of it is that network of who you have done work for, who you have encountered over the years.

"People get to know your capabilities and what you are able to do."

Noppe said that Xstract had successfully positioned itself to operate in the same space as some of those bigger, well-known brand names.

"We have certainly been hiring people who have worked in that space so we really are working in the same space with the same kind of people," he said.

"What we have done is hire a lot of experienced people whereas I think a lot of

the larger companies, with the growth phase, were basically hiring as many as they could and probably getting a bigger ratio of juniors to seniors.


"So in that way we can offer a lot of principal level experienced consulting."

The big talk of both companies is matched by the record each has for working with big name operators within the industry.

Glastonbury has worked alongside such names as Western Mining Corporation, Macmahon Contractors and Pybar Mining Services.

Xstract is also making a strong mark on the industry to the point where it recently opened a new office in the busy mining precinct of West Perth in Western Australia.

"Interest has been fantastic with enquiries for work and from potential staff," Noppe said.

Xstract also assisted private equity firm First Reserve Corporation with its due diligence and valuation of selected mining assets as part of the recently announced bond issue and capital raising participation for Glencore. 

Good news indeed that was confirmed recently to *Australia's Mining Monthly* by mining consultants Runge Australasian head of consulting John Buffington.

"From an overall business perspective there has really been an upward trend," Buffington said.

"This has been noticeable on both our advisory type of work, the traditional mining consulting work, on feasibility studies, due diligence work, mine optimisation work and the software optimisation type of work that we do putting in mine planning systems for our customers.

"Talking to other people that are service providers to the industry, be it lawyers or infrastructure or engineering groups, most of them seem to concur with the opinion that

things have been on an upwards curve since late last year."

Like most of its contemporaries, Runge experienced a period last year where companies stopped spending and shut projects down.

However, some of those same projects are back on the boil again at the feasibility and due diligence levels, on both greenfields and brownfields exploration and expansion work.

"There is still some hesitation with a few things still in limbo," Buffington said warily.

"We still do see decision making taking a little bit longer than we did a couple of years ago with people wanting to do a little bit more analysis before moving forward and before committing to spend.

"That's whether to spend on our services and software products or spend on the

development of their resource.

"It's good for us. Obviously the more analytical work that's involved, the more our software tools are needed to perform that sort of analysis and the more the type of services we provide are required."

Buffington said Runge was looking forward to the coming six months and was ready to welcome them with a buoyant frame of mind.

"Very buoyant," he emphasised. "We are continuing to build. We're back to all the consultants being busy again whether it be compiling independent technical reviews for investors, or whether it is feasibility work or whatever. There definitely is a fair bit of light at the end of the tunnel at the moment."

– Wally Graham



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