

# From energy to logistical issues – is SA still a good place for miners?

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South Africa's mining sector plays a significant role in the economy. But in order for the sector to thrive, both energy costs and security, as well as a reliable logistics system is critical to its success. The sector is grappling with complex issues that require nuanced solutions. In this article, we delve into the current state of the mining industry in South Africa and explore the implications for investors looking to navigate this landscape.

## The energy conundrum

Both energy security and rising energy costs are two major challenges faced by the mining sector, particularly because of the high energy needs and reliance on the base load from Eskom. While the Energy Action Plan launched in July 2022 to implement diverse energy initiatives, including the development of energy storage solutions, particularly for renewable energy, to mitigate severe loadshedding.

While some mining companies have started to pivot towards greener energy alternatives as part of decarbonisation goals, significant investment and infrastructure development is still required. However, decarbonisation will be challenging until miners can reduce their reliance on Eskom's base load and developing energy storage solutions.

Eskom's operations are coal-dependent, and coalminers such as Exxaro supplies the coal used to power the national energy grid. This creates a perpetual co-dependent relationship, which will continue to drive the demand for coal in South until such time that Eskom pivots to greener alternatives.

While Exxaro will maintain some exposure to coal to supply Eskom, supplying newer power stations, such as Medupi, the mining company is looking to diversify towards renewables and green minerals used for batteries. Despite all the energy and logistical challenges faced, Exxaro has managed to continue to deliver strong cashflows and dividend yields while also looking to renewable energy and green minerals.

In the short-term, mining companies are looking to implement energy-efficient technologies and practices to reduce energy consumption and reduce carbon emissions.

## Logistical challenges abound

Another critical component for mining companies' success is access to reliable logistical infrastructure. Transnet, the state-owned rail and port operator, has been at the centre of these challenges. While there are ongoing efforts to improve operational capacity, it will take many years to fully restore given the years of underinvestment in maintaining and upgrading the logistical infrastructure. Transnet's inadequate rail and port infrastructure has reduced efficiency due to unreliability and aging infrastructure. Port congestion, a shortage of rail locomotives, coal contract fraud, and rampant vandalism of rail infrastructure have converged to create significant disruptions within the South African mining sector.

We believe that greater private sector involvement in port and rail operations present a pathway for collaboration and innovation, with the aim of improving efficiency and security along key transportation routes. Furthermore, public private partnerships can yield the desired results for investment into infrastructure to maintain and upgrade the rail system and ports. This would greatly benefit the economy, specifically mining companies, by reducing transportation costs, improve reliability and increase economic viability overall.

### **Exploration for sustainability the sector**

A long-term risk looms due to insufficient investment in exploration spend, partly driven by policy uncertainty and infrastructure challenges. Adding to the urgency for the need for exploration now is the 20 years or more that it takes to find new deposits from exploration to reach fully operational production. Increased investment in exploration is necessary to discover new mineral deposits and extend the life of existing mines, as well as breaking ground on new projects will bode well for a more sustainable mining sector well into the future. A positive development for the exploration efforts is the government's proposed cadastre programme, which is set to springboard exploration projects going forward.

### **Nuanced approach required to achieve a Just Transition**

We believe that there is a need for a comprehensive and nuanced approach to decarbonising the mining sector in South Africa.

A critical component for mines to achieve a just transition would be the decarbonisation of Eskom. Furthermore, a just transition can also be achieved through various means, including transitioning to renewable energy, improving energy efficiency, electrifying mining operations, implementing carbon capture and storage, and adopting sustainable mining practices – all of which we're seeing come through in SA's mining sector.

Decarbonisation in South Africa's mining sector requires collaboration, innovation, and a supportive regulatory framework. By engaging with companies, understanding the importance of ESG factors, and supporting a sustainable economic transition, we can work towards a zero-carbon future that leaves no one behind.

Mining companies have also become increasingly responsible over the past two decades, through its involvement in social upliftment community projects, and a commitment to understanding the impact of mining on communities. In some cases, mining companies are even taking over the infrastructure of local municipalities to ensure an uninterrupted water supply to communities and building roads.

### **Future prospects for South African mining companies**

Despite the challenges, the sector remains mature and steadfast, boasting rich reserves of essential metals like coal, iron ore, manganese, chrome, and PGMs. As the world shifts towards cleaner energy sources, metals like copper, platinum, nickel, and aluminium are expected to play a crucial role in the energy transition. This will most likely increase demand as the transition gains momentum globally.

Global economic growth and industrialisation play a key role in driving the demand for metals. Countries like China, who have moved rapidly along the industrialisation curve over the last 20 years, have significantly influenced the demand for infrastructure metals such as iron ore. Furthermore, large thematic changes, including the energy transition, are expected to shape future demand for metals, highlighting the need for strategic investments in key resources.

To stay future-fit, mining companies need to prioritise safety, sustainability, community engagement and investment in mining infrastructure. Investments in exploration are crucial for the long-term viability of the sector, necessitating streamlined processes for exploration licenses and mining operations. Addressing issues related to energy security, logistics, and governance will create a conducive environment for sustainable growth in the mining industry.

Moreover, a focus on the Just Transition in the coal sector is crucial, considering its significant role in South Africa's economic landscape.

### **Investing for sustainable change**

As the mining sector navigates through challenges and opportunities, investors have a critical role to play in shaping its future trajectory. By prioritising strategic investments, sustainability, and community engagement, mining companies can position themselves for long-term success in a rapidly evolving global landscape.

When considering investing in the mining sector, M&G Investments carefully evaluates various factors, including the miner's transition plans away from fossil fuels, life of mine, just transition plans, cleaner energy plans, cash flow management, and transparency in communicating these plans.

As we look towards a future that demands responsible resource management and sustainable practices, collaboration between stakeholders will be key to unlocking the full potential of South Africa's mining industry.

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