S&P Global Ratings

Metals and Mining

Credit holds steady as big deals take shape

This report does not constitute a rating action.

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What's changed?

High-profile mergers and acquisitions (M&A) get rolling...slowly. A few large transactions have been proposed, but only a few global-scale deals have been completed. Buyers are reluctant to pay large premiums, and sellers seem confident in the scarcity of assets.

Political and social pressure constrains output and increases costs. Production from several mines around the world has been disrupted by factors like social opposition or government intervention. The risk of profit disruption plays into investment decisions in this capital-intensive industry.

Prices, profits, and credit hold steady. Prices for most metals have been relatively stable for about a year, with a bounce for copper and gold offset by weaker iron ore and nickel. Cash flow is down, as are shareholder returns and debt reduction.

What to look out for?

Capital deployment affects funding choices. The calls on operating cash flow are relentless from high maintenance spending or large expansion projects. Shareholder returns are often variable, and M&A is disciplined and controllable. But large multiyear project commitments could force choices between debt and equity.

Debt reduction is mostly done. Many metals companies have reduced debt since before rates started rising, so any fixed-rate debt issued before 2022 looks attractive today. And now, companies face pressure for more investment and continued equity returns.

Cost profiles drive competitive position and financial firepower. The companies that own the most efficient, profitable assets are best positioned to acquire and prune less robust competitors. Industry cost curves have moved a lot in the past few years because of general inflation and currency movements, which alters the landscape for M&A.

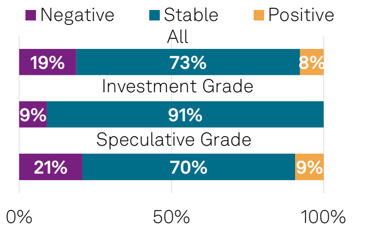
What are the key risks around the baseline?

Big spending and debt issuance coincide with lower prices. Metals prices have dropped substantially from record levels in 2022, but they remain elevated historically. Higher production costs support higher prices, but we still believe an economic downturn and modest overcapacity can drive prices below the cash costs of high-cost producers.

Public scrutiny strands production or adds costs. Unique mining assets attract attention and economic demands at local and state levels. Sometimes regulatory changes compel production changes, higher operating costs, or different economic benefits for stakeholders.

Rating Trends

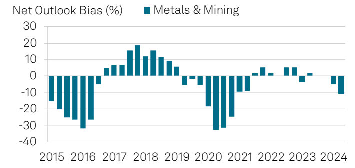
Outlook Distribution



Ratings Statistics (YTD)*

	IG	SG	All
Ratings	11	53	64
Downgrades	0	6	6
Upgrades	2	5	7

Ratings Outlook Net Bias



Sector Forecasts (Median)

2024	IG	SG
Revenue growth (Y/Y%)	-1.6	-1.3
EBITDA growth (Y/Y%)	-4.5	-5.1
EBITDA margin (%)	34.5	20.8
Capex growth (Y/Y%)	4.8	-7.1
Debt/EBITDA (x)	0.9	3.0
FFO/Debt (%)	71.7	23.6
FOCF/Debt (%)	20.3	8.5

All data as of end-June 2024.
* Year-to-date. Current ratings only.

Related Research

S&P Global Ratings Metal Price Assumptions: Prices Rise On Tight Supply And Higher Costs, May 02, 2024

Alliance Resource Partners L.P. Rating Raised To 'BB-' From 'B+' On Refinance, Removed From CreditWatch; Outlook Stable, Jun 28, 2024

Reliance Inc. Upgraded To 'BBB+' On Strengthened Credit Profile; Outlook Stable, May 02, 2024