

Mining & Minerals

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SOUTH AFRICA

Financing mining projects:
Thinking out of the box to unlock
Africa's mining potential



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**MINING & MINERALS
ALERT**

Financing mining projects: Thinking out of the box to unlock Africa's mining potential

The African mining sector, rich in resources but often constrained by financing challenges, is at a crossroads. Traditionally, mining companies have relied on conventional financing methods to fund exploration, development and expansion projects. These methods – primarily equity financing, bank loans and project financing – have long been the 'go-to' options for raising capital. However, in today's volatile economic environment, especially in emerging markets like Africa, these traditional models come at a significant cost.

Equity financing, while offering access to capital without repayment obligations, results in equity dilution. For small to mid-sized mines, especially in Africa where many companies are privately owned, this is an expensive form of funding. Bank loans and project financing provide capital without diluting ownership, but they often come with high interest rates, strict covenants and the pressure of meeting repayment schedules – requirements that can significantly burden mining companies. The risk becomes even greater when commodity prices fluctuate, or unexpected operational challenges arise, making loan repayment difficult.

In the African context, traditional financing options present additional challenges. Many countries in the region have unpredictable regulatory environments, and banks or equity investors may be cautious about providing funds to projects that are perceived as high-risk. High capital expenditures required for exploration and development further discourage investors from committing funds to a project without guaranteed returns. Additionally, the time horizon to reach production and profitability in mining can be lengthy, often taking 10 to 15 years to see substantial cash flows, which makes mining projects less attractive to many traditional investors who are seeking faster returns. Access to financing in the region may also be limited by inflationary pressures, currency instability and currency controls. Mining companies are often required to hedge against local market risks, which can add additional layers of cost and complexity. In addition, the lack of infrastructure in remote mining areas can make it difficult to complete projects on time and on budget. The cumulative effect of these issues often results in mining companies being forced to compromise on the quality of their operations or projects.

This article is part of a series where we will explore how royalty and streaming models could transform South Africa's junior mining landscape, with upcoming articles diving into the financial and operational benefits, as well as considerations for junior miners looking to adopt these innovative funding structures.

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Royalty and streaming models

Royalty and streaming models may offer an alternative solution to address the challenges associated with traditional financing. Royalties are financial agreements in which an investor provides upfront capital in exchange for a percentage of the revenue or profits from a mine's production, typically tied to either the quantity of minerals produced, or the revenue generated from the sale of those minerals. Streaming, on the other hand, involves the investor providing funds in exchange for the right to purchase a portion of the future production at a discounted price.

Royalty and streaming arrangements offer mining companies the ability to raise capital without diluting equity or taking on debt, as well as an opportunity to retain more control of their operations and decision-making processes.

A major advantage of the royalty and streaming model over traditional methods is the lower operational risk exposure for prospective investors. The investor receives a percentage of revenue from the mine, or an ability to purchase commodities at a fixed and advantageous price regardless of whether the mine meets expected production targets or cost over-runs. The investee mining company, therefore, carries the risks of capital cost overruns, labour strikes, fluctuating commodity prices, or production delays, while the investor is insulated from these risks.

Royalty and streaming arrangements could generate a revenue stream much faster compared to traditional funding. Mining projects, especially in Africa, often face long lead times before reaching production. Even after a mine is operational, it may take several more years to reach full production capacity and be able to pay dividends to equity shareholders or be in a position to pay back debt and interest. On the other hand, a royalty or streaming investor can commence generating revenue once production starts or any revenue starts to flow.

Moreover, because royalty and streaming agreements are typically structured over the life of the mine, they provide investors with long-term, stable and predictable returns. This structure allows them to capture additional upsides if the mine discovers new reserves or expands production.



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Advantages of these approaches

One of the most significant advantages of royalty and streaming investors is an ability to achieve geographic diversification. Mining companies are often regionally focused, particularly in Africa, where many miners concentrate operations in specific countries or regions. This exposes mining companies to risks tied to political instability, local regulatory changes and economic fluctuations in those regions. Royalty and streaming investors can invest in projects around the world, spreading their risk across different jurisdictions. They have the ability to diversify across multiple countries and commodities, capitalising on opportunities in more “stable” jurisdictions while also gaining exposure to high-potential, high-risk projects in emerging markets.

During market downturns, royalty and streaming investors can also invest in low-cost opportunities, including those in politically stable or lower-cost mining regions, which allows them to position themselves for long-term growth. This makes the royalty and streaming business model highly resilient, performing well even during challenging market conditions.

The shift from traditional financing methods to royalty and streaming agreements could offer a game-changing opportunity for African mining companies. These arrangements provide a more sustainable, flexible, and risk-mitigated approach to financing projects – especially on a continent where political instability, fluctuating commodity prices and high capital expenditures are common concerns.

In terms of this model, mining companies can secure capital more efficiently, avoid the pitfalls of equity dilution or debt burdens, and unlock new avenues for growth. For investors, these models offer exposure to the mining sector without the operational headaches, making it a potentially lucrative option in the long run.

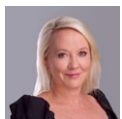
As the focus shifts to investment in mining across the African continent to unlock its rich mineral resources, royalty and streaming agreements will likely play an increasingly important role in helping companies achieve growth while navigating the complexities of the global mining landscape.

Vivien Chaplin and Phetha Mchunu



OUR TEAM

For more information about our Mining & Minerals sector and services in South Africa and Kenya, please contact:



Vivien Chaplin

Sector Head: Mining & Minerals
Director: Corporate & Commercial
T +27 (0)11 562 1556
E vivien.chaplin@cdhlegal.com



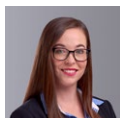
Ian Hayes

Practice Head & Director:
Corporate & Commercial
T +27 (0)11 562 1593
E ian.hayes@cdhlegal.com



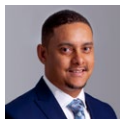
Emil Brincker

Practice Head & Director:
Tax & Exchange Control
T +27 (0)11 562 1063
E emil.brincker@cdhlegal.com



Claudette Dutilleux

Director:
Dispute Resolution
T +27 (0)11 562 1896
E claudette.dutilleux@cdhlegal.com



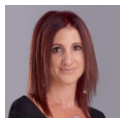
Jackwell Feris

Sector Head:
Industrials, Manufacturing & Trade
Director: Dispute Resolution
T +27 (0)11 562 1825
E jackwell.feris@cdhlegal.com



Willem Jacobs

Director:
Corporate & Commercial
T +27 (0)11 562 1555
E willem.jacobs@cdhlegal.com



Rachel Kelly

Director:
Corporate & Commercial
T +27 (0)11 562 1165
E rachel.kelly@cdhlegal.com



Fiona Leppan

Director: Employment Law
T +27 (0)11 562 1152
E fiona.leppan@cdhlegal.com



Burton Meyer

Director:
Dispute Resolution
T +27 (0)11 562 1056
E burton.meyer@cdhlegal.com



Jaco Meyer

Director:
Corporate & Commercial
T +27 (0)11 562 1749
E jaco.meyer@cdhlegal.com



Rishaban Moodley

Practice Head & Director:
Dispute Resolution
Sector Head:
Gambling & Regulatory Compliance
T +27 (0)11 562 1666
E rishaban.moodley@cdhlegal.com



Aadil Patel

Practice Head & Director:
Employment Law
Sector Head:
Government & State-Owned Entities
T +27 (0)11 562 1107
E aadil.patel@cdhlegal.com



Allan Reid

Executive Consultant:
Corporate & Commercial
T +27 (0)11 562 1222
E allan.reid@cdhlegal.com



Clarice Wambua

Consultant | Kenya
T +254 731 086 649
+254 204 409 918
+254 710 560 114
E clarice.wambua@cdhlegal.com



Deon Wilken

Director:
Banking, Finance & Projects
T +27 (0)11 562 1096
E deon.wilken@cdhlegal.com



Alistair Young

Director:
Environmental Law
T +27 (0)11 562 1258
E alistair.young@cdhlegal.com



Anton Ackermann

Associate:
Corporate & Commercial
T +27 (0)11 562 1895
E anton.ackermann@cdhlegal.com



Phetha Mchunu

Associate:
Corporate & Commercial
T +27 (0)11 562 1427
E phetha.mchunu@cdhlegal.com



Sandile Shongwe

Associate:
Corporate & Commercial
T +27 (0)11 562 1242
E sandile.shongwe@cdhlegal.com



Alecia Pienaar

Counsel:
Environmental Law
M +27 (0)82 863 6279
E alecia.pienaar@cdhlegal.com

BBBEE STATUS: LEVEL ONE CONTRIBUTOR

Our BBBEE verification is one of several components of our transformation strategy and we continue to seek ways of improving it in a meaningful manner.

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JOHANNESBURG

1 Protea Place, Sandton, Johannesburg, 2196. Private Bag X40, Benmore, 2010, South Africa.

Dx 154 Randburg and Dx 42 Johannesburg.

T +27 (0)11 562 1000 F +27 (0)11 562 1111 E jhb@cdhlegal.com

CAPE TOWN

11 Buitengracht Street, Cape Town, 8001. PO Box 695, Cape Town, 8000, South Africa. Dx 5 Cape Town.

T +27 (0)21 481 6300 F +27 (0)21 481 6388 E ctn@cdhlegal.com

NAIROBI

Merchant Square, 3rd floor, Block D, Riverside Drive, Nairobi, Kenya. P.O. Box 22602-00505, Nairobi, Kenya.

T +254 731 086 649 | +254 204 409 918 | +254 710 560 114

E cdhkenya@cdhlegal.com

STELLENBOSCH

14 Louw Street, Stellenbosch Central, Stellenbosch, 7600.

T +27 (0)21 481 6400 E cdh Stellenbosch@cdhlegal.com

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