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Pressure is building on mining majors for growth, says Ango American's chief executive

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How long will the latest spree of mining M&A last? Until a major miner again blows up billions in shareholder dollars by making "heroic pricing assumptions" during the battery metals boom, according to Anglo American chief executive Duncan Wanblad.

"I think some form of consolidation in the form of M&A is very likely to happen given where we are today," he said on the sidelines of the World Mining Congress in Brisbane this week.

"I think this is more fundamentally driven by the fact that a lot of mining companies are ex-growth – they don't have anywhere to go. And secondly finding this stuff and then building and developing it takes a balance sheet that's pretty sizeable.

"How long does that go on for? Until the first major value-destructive deal is done – and shareholders react in the same way they did at the end of 2009, and again in 2014.

"The pressure will build to either find something to do – or stop growing and stop developing in a company. Because these resources are so bloody hard to come by.

So yes, deals will happen and I suspect that there will be one or two destructive deals that will happen out of some heroic pricing assumptions."

When Mr Wanblad took over the leadership of Anglo American from Mark Cutifani in 2022, he had already played a key role in Mr Cutifani's rescue mission at the global mining giant, and took on a company that had seen its pride, balance sheet, and operating reputation restored after near-disaster in 2013.

Chief among them at the time was one of many of the era's ill-fated acquisitions, as Anglo struggled to deliver its Minas-Rio iron ore mine in Brazil, bought for $US6bn in 2008 and estimated to have cost Anglo $US14bn by the time it shipped its first ore in 2013.

Anglo American was hardly alone in torching shareholder cash during the last mining boom, and the scars run deep. Rio Tinto's $44bn acquisition of Alcan in 2007, after a bidding war with Vale and Alcoa, broke a seven-year acquisition drought for the company, but soured within a few years. Along with a $5bn deal in 2011 to buy Mozambique-focused coal miner Riversdale, it eventually brought chief executive Tom Albanese undone in 2013.

On the local stage the $11bn merger between Oxiana and Zinifex in 2008 went south within a year, and the Newcrest Mining's $10bn acquisition of Lihir Gold in 2011 nearly brought the gold major down.

In the same period, BHP was dealing with the fallout from its ill-fated foray into US shale gas, and miners around the world were licking their wounds from top-of-the-market M&A, or from being forced to write down the massive growth portfolios they boasted of during the boom.

Only recently, a decade on from the end of the last mining boom, have the world's biggest miners returned to the field in the first major acquisition spree in a decade.

Mr Wanblad would not be drawn on specific deals considered by the company, but Anglo American was this year linked to a potential bid for Teck, had the company's plans to spin off its coal assets succeeded.

There is little doubt that the demand for copper, other base metals and battery-making ingredients such as lithium will soar over the next few decades.

S&P Global Market Intelligence estimates that annual global copper demand alone will double from 25 million a year to about 50 million tonnes by 2035, with few signs that the demand can be met from existing mines and new discoveries.

That growth story has helped set off the most recent round of M&A, and Mr Wanblad says the demand for growth from investors will add further pressure for a new round – within limits.

“There is a hell of a lot more discipline in the industry. And that’s why even in the run-up to where we are today, you haven’t seen the same momentum behind M&A as you saw in the run-up to the top of the supercycle in the late 2000s,” he said.

“Those lessons were hard learned and for many, many years every mining company was reminded of those lessons by their investors at every single opportunity. I don’t think those lessons go away very quickly, and many of them got institutionalised in big mining companies. And it’s quite difficult to break those systems – and for bloody good reason, I believe.”

Newmont’s $29bn acquisition of fellow gold major Newcrest Mining is still to be closed, but looks set to go ahead by the end of the year. BHP’s $10bn acquisition of Australian copper play OZ Minerals was its first in a decade, and Glencore’s move on Canadian miner Teck – and potential spin-out of their combined coal divisions – is also a move to expand the company’s exposure to base metals and critical minerals. The current wave follows the mega gold mergers of only a few years ago, when Barrick swallowed up Rand, Newmont merged with Gold Corp, and Agnico Eagle and Kirkland Lake merged to help both companies bulk up.

Mr Wanblad told The Australian the “mood music” from investors had changed on major acquisitions over the last year, as both miners and shareholders realised their ability to grow production to meet demand had diminished.

“In the run-up to the top of the supercycle everybody had these massive pipelines and projects – that was your claim to fame, how many billions of dollars you had in your pipeline that you would then be able to bring to book in a very short time frame. And it didn’t really matter what those resources were,” Mr Wanblad said.

“Those resources aren’t on the books anymore. So I think there’s a stark recognition that all of a sudden the wherewithal to actually grow doesn’t exist anymore.”

Modern mining companies also needed to take a longer term view, however, Mr Wanblad said, given the coming transformation of the world energy system to bring down carbon emissions.

“This is a cyclical market. There will be highs and there will be lows. And the right deals are the ones that survive at the bottom of the market,” he said.

“Today’s prices will adjust.

“I think some of this will be moderated by the fact that a deal today may look terrible, but actually probably won’t be in the context of where you think the long term prices are going to settle – but they’re unlikely to be ‘heroic’ prices.”

Even so, M&A wouldn’t solve the fundamental problem of the growing disparity between supply and demand, he said.

“That doesn’t fix the world’s problems, by the way. That is tantamount to moving deckchairs on the Titanic,” he said.

Only the hard work of exploration, discovery and resources development would solve that equation, Mr Wanblad said, pointing to Anglo’s $100m-a-year exploration budget as an example of the company’s desire to reinvest in its own discoveries.

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Nick Evans has covered the Australian resources sector since the early days of the mining boom in the late 2000s. He joined The Australian's business team from The West Australian newspaper's Canberra bureau, where... Read more