





April 23, 2017

THE PEACOCKS

AFRICAN LEADERSHIP ACADEMY

1050 Printech Avenue Roodepoort

AMANGO BOARD REPORT

THE CFO CASE STUDY

Contents

[EXECUTIVE SUMMARY 2](#_Toc481324599)

[INTRODUCTION 3](#_Toc481324600)

[BACKGROUND INFORMATION 3](#_Toc481324601)

[TERMS OF REFERENCE 3](#_Toc481324602)

[TABLE OF PRIORITIZATION 3](#_Toc481324603)

[DISCUSSION OF ISSUES 4](#_Toc481324604)

[ISSUE 1: BALANCE SHEET DELEVERAGE 4](#_Toc481324605)

[STATEMENT OF ISSUE 4](#_Toc481324606)

[IMPACT ANALYSIS 4](#_Toc481324607)

[RECOMMENDATIONS & JUSTIFICATIONS 4](#_Toc481324608)

[ISSUE 2: CORPORATE RECONSTRUCTION & REORGANISATION 4](#_Toc481324609)

[STATEMENT OF ISSUE 5](#_Toc481324610)

[IMPACT ANALYSIS 5](#_Toc481324611)

[RECOMMENDATIONS & JUSTIFICATIONS 5](#_Toc481324612)

[ISSUE 3: OPERATIONAL RISK & INDUSTRIAL ACTION IN AUSTRALIA 6](#_Toc481324613)

[STATEMENT OF ISSUE 6](#_Toc481324614)

[IMPACT ANALYSIS 6](#_Toc481324615)

[RECOMMENDATIONS & JUSTIFICATIONS 6](#_Toc481324616)

[ISSUE 4: STRATEGIC JOINT VENTURE DECISION IN CANADA 7](#_Toc481324617)

[STATEMENT OF ISSUE 7](#_Toc481324618)

[IMPACT ANALYSIS 7](#_Toc481324619)

[RECOMMENDATIONS & JUSTIFICATIONS 7](#_Toc481324620)

[ISSUE 5: MANAGING DIVISIONAL PERFORMANCE GROUP-WIDE 8](#_Toc481324621)

[STATEMENT OF ISSUE 8](#_Toc481324622)

[IMPACT ANALYSIS 8](#_Toc481324623)

[RECOMMENDATIONS & JUSTIFICATIONS 8](#_Toc481324624)

[ISSUE 6: STRATEGIC DISPOSAL IN BRAZIL 9](#_Toc481324625)

[STATEMENT OF ISSUE 9](#_Toc481324626)

[IMPACT ANALYSIS 10](#_Toc481324627)

[RECOMMENDATIONS & JUSTIFICATIONS 10](#_Toc481324628)

[ETHICAL ISSUES 10](#_Toc481324629)

[APPENDICES 11](#_Toc481324630)

[APENDIX 1: SWOTs ANALYSIS 11](#_Toc481324631)

# EXECUTIVE SUMMARY

This Report has detailed the prioritization and evaluation of issues facing Amango Mining Group PLC. We have prioritized the issues based on urgency as follows:

1. Operational Risk and Industrial Action in Australia
2. Strategic Disposal in Brazil
3. Cooperate Reconstruction and Reorganization
4. Balance Sheet De-Leverage
5. Strategic Joint Venture Decision in Canada
6. Managing Divisional Performance Group-wide

After evaluation of all these issues and their expected impact on Amango Mining Group, we have come up with the following key recommendations:

1. Selling of subsidiaries of Amango such as Nickel Limited, Niobium Phosphates and Copper Limited to help in debt reduction of Amango.
2. Cutting down the jobs at Amango PLC from 160,000 to 60,000 to reduce the operating costs of running of Amango’s subsidiaries.
3. Abandoning the planned sale of Coal mines and subsequently Coal Limited to please Amango’s biggest investor, PIC, which threatens to offload shares if South African Coal mines are sold.
4. Financially compensating families of deceased from the mine accidents in Australian Copper mines to avoid the negative publicity from the mine death toll and number of people trapped.
5. Switch from a Profit sharing bonus system to a performance based bonus system to motivate performance in divisional branches and reduce losses from the expensive profit sharing system.
6. Investing in the small & shallow Coal mine design in Canada which prospects more profits than the other mine designs after Amango deciding to exploit coal after its come-back from $13.00 to $50.24 per ton.

# INTRODUCTION

## BACKGROUND INFORMATION

Amango Group Mining PLC is a major mining enterprise in business for around 100 years. It extracts and supplies minerals to 45 countries worldwide with 160,000 employees. It currently deals with 8 subsidiaries: Diamond Limited, Platinum Limited, Copper Limited, Nickel Limited, Niobium & Phosphates Limited, Iron Ore & Manganese Limited, Coal Limited and Corporate & other. As a major mining player, it faces stiff competition from BHP Billiton PLC, Rio Tinto PLC, Glencore PLC and Vale SA. Its single largest investor is Public Investment Corporation S.A. (15%) despite having over 60% ownership from a myriad of stakeholders outside Africa.

Unfortunately, Amango is currently facing financial issues with its annual revenues reducing from $30,988 million in 2015 to $23,003 million in 2016. The issue has been aggravated by the low commodity prices of coal, iron ore, copper, nickel and gold (some of their major mineral products). This low turnover is still being accompanied by problems such as high risk operations in its mining countries and financial losses of up to $5,842 million. Finally, but most importantly, Amango’s financial crisis has been crowned by its credits being slashed to junk status and their biggest mandate is to bring their debt to below $10 billion by the end of 2017.

## TERMS OF REFERENCE

Amango Group Mining, a public limited company, primarily listed in the Johannesburg Stock Exchange and London Stock Exchange, has requested the services of the Peacocks, a consulting team, to analyse its issues and offer recommendations and action plans addressing these issues.

## PRIORITIZATION OF ISSUES

Below is a list of issues in order of how they should be tackled:

### Operational Risk and Industrial Action in Australia

$250,000 daily and risk of strike action in ***7days*** (Financial and Security Urgency)

### Strategic Disposal in Brazil

Amango needs ***7 days*** to make a decision on the offer by CMOC (Very Urgent)

### Cooperate Reconstruction and Reorganization

Sales of subsidiaries are essential in effecting the balance sheet deleverage, should go hand in hand with balance sheet de-leverage

### Balance Sheet De-Leverage

Debt should be reduced to below $10 billion in by the end of 2017 (***1 year time limit***)

### Strategic Joint Venture Decision in Canada Should be effected to hit the market with the annual high prices of coal (before end of year)

### Managing Divisional Performance Group-wide

Controlled behaviour is essential for reduced financial loss in future (No particular urgency)

# DISCUSSION OF ISSUES

## ISSUE 1: BALANCE SHEET DE-LEVERAGE

### STATEMENT OF ISSUE

Amango has a goal of reducing its overall debt below the bar of $10 billion dollars. Its main focus therefore needs to go towards selling assets and suppressing important liabilities, expanses and operating costs to make this debt decrease. However, Amango still needs to yield a part of its shares to the government and to Black South Africans in recently enacted laws. Moreover, PIC does not want to see Amango dispose from its coal and iron subsidiaries. To not lose the interest of its main shareholder PIC, vital to Amango’s existence, Amango has to comply under this restriction as well. The Peacocks have thus determined strategies to adopt to couple the internally set objectives with the external factors affecting Amango’s decisions.

### IMPACT ANALYSIS

1. Pressure on decisions by PIC and the South African government’s newly enacted laws
2. Continuation of Junk Status and lack of willingness of potential investors to invest in Amango

### RECOMMENDATIONS & JUSTIFICATIONS

1. Amango needs to urgently proceed to the sales of Nickel Ltd, Copper Ltd, and Niobium and Phosphates Ltd. The debt over equity ratio of Amango is at 1.437, a number that is critically high compared to other mining companies. This can drive investors out of Amango, which would make Amango’s situation even more challenging. The sales of these subsidiaries will help Amango to counter its junk status.
2. Amango needs to reduce its number of employees from 160,000 to 60,000. In fact, with operating costs greater than the group’s revenue, Amango has negative operating profits. Cutting jobs is thus vital to obtain operating profit back. By reducing the number of employees by 100.000, Amango could finally reach positive results in terms of operating profit.

|  |  |  |
| --- | --- | --- |
| Number of workers | 160 000 | 60 000 |
| Operating costs related to salaries, wages and other employee benefits (in millions of USD) | 13 033 | 4 899 |
| Other operating costs (in millions of USD) | 13 033 | 13 033 |
| Total Operating Costs (in millions of USD) | 20 666 | 17 932 |
| Revenue in 2016 (in millions of USD) | 20455 | 20 455 |
| Operating profit (in millions of USD) | (5 611) | 2 523 |

1. Amango needs to proceed to the sales of a major part of its property, plant and equipment. Amango’s value of property, plant, and equipment is at $29,621 millions of US Dollars. A source of medium term finances could be the selling of a 100% of the fixtures, fitting and equipment - losing $17,919 millions of US dollars in depreciation -and 71% of the 50% of lands, buildings, and assets under construction. These sales would make the new value of property plant and equipment at only $2,619 million. Amango can therefore use these sources as working capital for its day to day activities, such as leasing, that will be needed. This will contribute to the unbundling of Amango’s portfolio, a more profitable option than the new governmental laws.

## ISSUE 2: CORPORATE RECONSTRUCTION & REORGANISATION

### STATEMENT OF ISSUE

Due to credit ratings, Amango is under the pressure of choosing which of its subsidiaries to sell. The power of its main shareholder (15%), PIC, has a significant weight over its decisions. PIC’s major mandate is the socio-economic development of South Africa and thus it does not want to see Amango disinvest from the country. However, Amango has identified Coal mines in South Africa as assets to sell in their bid to reduce their massive debt to below $10 billion. PIC has threatened to start offloading their shares if Amango takes this line of action. Selling a subsidiary is quite essential as the debt reduction deadline is 2017 and pleasing PIC is equally important since with Amango’s junk status credits, acquiring new investors will be an uphill task.

### IMPACT ANALYSIS

1. Possible loss of a major investor, PIC, if its interests are not addressed.
2. Financial Crisis due to Amango’s Credit Slashing to Junk status which could worsen if the debt is not reduced to less than $10 billion through selling of subsidiaries registering minimum profits or losses.

### RECOMMENDATIONS & JUSTIFICATIONS

1. Cease the planned sale of coal mines and subsequently Coal Limited. (Maintain Coal Limited):

* Coal Limited has the highest sales of all the subsidiaries of Amango ($97,760 million)
* Selling of Coal Limited will lead to the loss of PIC, its biggest investor. Amango will find it hard to acquire new investors due to its credit ratings. Thus maintenance of PIC is key

|  |  |
| --- | --- |
| Pros | Cons |
| PIC will be maintained as an investor, as their main mandate of socio-economic development in South Africa is addressed | Expected low growth rate forecast (0.95%) for the next 10 years |
| Maintained high revenues due to the significant sales by Coal Ltd ($97,760 million) |  |

1. Sell Nickel Limited, Niobium & Phosphates Limited and Copper Limited:

* Nickel Ltd has negative operating profits of $22.000,000; Nickel’s price index has dropped to 0.59 in 15 months \**Refer to Price index in Appendix 2*
* Niobium & Phosphates has one of the lowest operating profits of $119,000,000; Thus selling AMA-NP will be beneficial to reducing Amango’s debt to below $10 billion rather than the annual turnover $119 million; AMA-NP has already received offers for purchase in a deal prospected to yield $1-2 billion[[1]](#footnote-1)
* Copper Ltd has dropped its operating profits by $965 million; Copper Ltd has also dealt Amango a huge deal of poor publicity due to geotechnical problems of their copper mines in Australia which has led to 16 deaths and more than 80 miners trapped in 2016 alone; Australia also has a high operational cost[[2]](#footnote-2) for the mining industry due to excessive rules and regulations and strengthening of the AUD against the USD

|  |  |
| --- | --- |
| **Pros** | **Cons** |
| Faster reduction of the Company’s debt due to revenues from asset disposals | Lower operational profits in years to come to due to less company subsidiaries |
| Greater operating profits after sell of Nickel Ltd which brings negative turnovers |  |

## ISSUE 3: OPERATIONAL RISK & INDUSTRIAL ACTION IN AUSTRALIA

### STATEMENT OF ISSUE

Amango has faced fatal incidents in a copper mine in Australia when a newly constructed mineshaft nearly collapsed, causing the death of 6 miners, and the trapping of 80 others. Not only has this incident affected the firm’s image, but it has also caused huge financial losses estimated at $250,000 each day. The mine was forcefully closed due to the safety concerns under orders by the Australian government. However, owing to the losses, the CEO has ordered the re-opening of mines in less than 7 days.

### IMPACT ANALYSIS

1. Massive financial losses ($250,000 per day) due to the shutdown of mines
2. Possible investor dropout due to the bad publicity caused by this issue
3. Expected fines if mine is reopened without fixing of safety-risking geotechnical designs

### RECOMMENDATIONS & JUSTIFICATIONS

1. Financially compensate the families of the miners who died. This will contribute to Amango presenting a positive image of compassion to its workers and underline the importance awarded to security and health. Consider amounts from $300,000 to $450,000 per person.

|  |  |
| --- | --- |
| **Pros** | **Cons** |
| Positive publicity for Amango, investors will be maintained given the taken responsibility shown by Amango. | Loss of money through the compensations |
| Reduced risks of strikes from other workers or families of deceased |  |

1. Sell Copper Limited to contribute to debt reduction:

* Amango is in its survival stages and asset disposals will help in debt reduction and improved credit ratings from the current junk status
* Australia has high costs of doing business because of: anti-mining government, excessive regulations in the mining industry and challenging process of getting developments approved[[3]](#footnote-3)
* USD has lost its value to AUD making investments more expensive in Australia

|  |  |
| --- | --- |
| **Pros** | **Cons** |
| Elimination of the daily losses of $250,000 a day from the Copper Mines | Lack of certainty that there will be willing buyers of Copper Ltd & Copper mines |
| Reduced Amango debts from profits from assets disposal |  |

## ISSUE 4: STRATEGIC JOINT VENTURE DECISION IN CANADA

### STATEMENT OF ISSUE

Amango wishes to pursue get into a JV with Cephas, an American mining company, to set up Quinta Joint Venture. Coal just made a comeback from $13.00 per ton to $50.24 per ton in 6 months and Amango seeks to exploit this opportunity through its JV with Cephas. As Amango seeks to commence setting up of mining infrastructure, there is uncertainty over how to proceed as demand may range from 5 million tons at the minimum, 7.5 million tons at the median, and to 10 million tons at the maximum. The variable cost per ton of coal will be $26.38 for minimum demand and this will increase by 35% and 50% for median and maximum demands respectively. Thus Quinta has to choose between three designs, based on the demands, (Small & Shallow, Medium Size & Depth and Large & Deep) which cost $75 million, $87.5 million and $100 million respectively. On top of that, Canada is turning into a high-risk resource due to the grassroots aboriginal protest movement (Idle No More) against mining companies. Protesters are seeking to get more benefits from the mining companies exploiting Canada’s mines.

### IMPACT ANALYSIS

1. If the right mine design model is not chosen, Amango might make less profits than is possible
2. Possible losses from the unrests and protests by *Idle No More* which could bar operations

### RECOMMENDATIONS & JUSTIFICATIONS

1. Invest in the small and shallow design as it gives the most profit ($44.3 million) as per calculations from the table below. \*Note that Cost of Production = Amount of Coal x Price per ton from the graph

|  |  |  |  |
| --- | --- | --- | --- |
| *Prices in $ (USD)* | **Small And Shallow** | **Medium Size & Depth** | **Large And Deep** |
| *Price Per Ton Of Coal* | *26.38* | *35.613* | *39.57* |
| Amount Of Coal (Tons) | 5,000,000 | 7.500,000 | 10,000,000 |
| Cost Of Land | 75,000,000 | 87,500,000 | 100,000,000 |
| Cost Of Production | 131,900,000 | 267,097,500 | 395,700,000 |
| ***Total Cost: Production + Land*** | ***206,900,000*** | ***354,597,500*** | ***495,700,000*** |
| *Trading Price* | *50.24* | *50.24* | *50.24* |
| ***Revenues*** | ***251,200,000*** | ***376,800,000*** | ***502,400,000*** |
| **Profit** | **44,300,000** | **22,202,500** | **6,700,000** |

1. Recruit a majority of workers/miners (probably more than 50%) from the native Canadians to emphasize the benefits of Amango in improving native lives through creation of jobs

|  |  |
| --- | --- |
| Pros | Cons |
| Contributes to positive image about Amango as it shows its benefits of job creation to natives | Amango will have to incur the effort of training unskilled native workers |
| Limits native unrests and calms down protests |  |

1. Collaborate with *Idle No More* and have representatives of the movement in the Quinta Board to create good rapport with the angry natives seeking accruement

|  |  |
| --- | --- |
| Pros | Cons |
| Low risks as expected unrests from *Idle No More* will be addressed by having their voice in the Quinta Board | Will have to negotiate decisions that Amango would have otherwise taken without consent of natives (Time consuming and restrictive to Amango) |
| Calms down protesters as their leaders will be part of the JV |  |

## ISSUE 5: MANAGING DIVISIONAL PERFORMANCE GROUP-WIDE

### STATEMENT OF ISSUE

Subsidiary executives are in charge of individual mines under Amango. Profit sharing remains the bonus system for these executives. Bonuses account for a major part of the executives’ salaries. Therefore, when Amango started reviewing the bonus system (due to low turnovers that could not sustain the bonus system), some of the executives expressed their distaste for the review by: postponing standard service schedules in mines (which jeopardises mines’ safety), retrenching workers from economically viable mines (rendering losses in mines which would have otherwise helped increase the turnover) and not recording material financial transactions in the online accounting system (making it hard for Amango to track its financial progress).

### IMPACT ANALYSIS

1. Lower turnover due to lack of production from potentially profitable mines
2. Lack of ethics causes poor accountability particularly financial recording
3. Risk of termination of mining license due poor adherence of compulsory safety servicing

### RECOMMENDATIONS & JUSTIFICATIONS

1. Switch from the Profit Sharing bonus system to performance based bonus system where executives receive bonuses based on the performance of their individual mines/ divisions

|  |  |
| --- | --- |
| **Pros** | **Cons** |
| More productivity as workers get motivated to improve their performance | Team spirit can be damaged by the divisional rivalry based on divisional bonus difference |
| Target setting helps in giving purpose and direction to the executives |  |

1. Establish a progressive discipline policy to prevent irrational actions from executives for instance the retrenchment of workers from economically viable mines. This policy should list priorities of company roles, should establish a code of conduct to be followed and implications of lack of adherence which include but are not limited to verbal/written warnings, probations, suspensions, bonus deduction and termination in a bid to improve company ethics.

|  |  |
| --- | --- |
| **Pros** | **Cons** |
| Enforces and encourages completion of priorities thus more productivity | Possible retaliation from executives who will think the policy is strict and doubt their integrity |
| Improved company ethics as workers try to avoid facing disciplinary action in case of lack of observance of the policy | Inflexibility: HR managers have to make judgement calls when to deviate from progressive steps[[4]](#footnote-4) (considering circumstances) |

*Refer to Appendix 2(Progressive Discipline Matrix) for diagrammatic representation of this recommendation*

1. Implementing software which monitors employees’ activity by managing security, productivity, risks and litigation. The software should be overt - the employees will be aware of the presence of the software – as this maintains an ethical company nature rather than having it covert.

|  |  |
| --- | --- |
| **Pros** | **Cons** |
| Improved accountability for executives as it manages employees actions and makes management for the Board and Management | Employees could argue this is not a fair labour practice legally \**However, if there’s a general business reason, from a business perspective, it can be justified* |
| Improves professional behaviour of workers |  |

## ISSUE 6: STRATEGIC DISPOSAL IN BRAZIL

### STATEMENT OF ISSUE

Niobium and Phosphates Limited has seen a huge ratings downgrade. Amango has begun an asset disposal program in Brazil following the downgrade. The price to earnings ratio of Niobium Phosphate (AMA-NP) is 13, a number lower than the average metals and mining P/E ratio around the world which stands at 29.8[[5]](#footnote-5). The operating profits of AMA-NP is $157 million, an amount inadequate to help in reduction of Amango’s debt to below $10 billion. Amango has therefore started disposing assets of Niobium Phosphates and has already received an offer of $750 million to buy out the 100% ownership of AMA-NP. This asset disposal program looks like a more lucrative strategy to help in debt reduction given the poor profits from AMA-NP and an *unseeable* company profit growth in future. Amango hopes to make between $2-3 billion in this program and thus reduce their massive debt.

### IMPACT ANALYSIS

1. Low profits and revenues (currently BRL110 million in earnings) if Amango keeps ownership of AMA-NP
2. Slower rate of debt reduction if the asset disposal program is not undertaken, yet Amango’s goal is to have a debt below $10 billion by the end of this fiscal year (2017)

### RECOMMENDATIONS & JUSTIFICATIONS

1. Give a counter offer of $2 billion to the tabled $750 million by CMOC. Since $750 million is the first offer tabled, this is the lowest price possible for AMA-NP as per CMOC (as is common with buyers giving offers for sale). Re-negotiate the offer and accept any offer between $1.4B and $2B.

|  |  |
| --- | --- |
| **Pros** | **Cons** |
| Amango has a high probability of making more than the tables $0.75 billion | Might make CMOC reluctant to negotiations and buying; |
| Will highly and quickly contribute to the debt reduction. |  |

1. Sell Niobium and Phosphates Limited at the stated $750 million (lowest possible price) but retain some of the assets of the business such as intellectual property and other non-current assets \**This is only recommended in cases where all counter offers have been rejected and finding possible buyers is getting tedious*.

|  |  |
| --- | --- |
| **Pros** | **Cons** |
| Increased revenue above the $750 million from sale or lease of non-current assets or intellectual property retained | Lower initial revenue as AMA-NP is sold at the lowest price possible ($0.75 billion) |
| Will highly and quickly contribute to debt reduction (same as recommendation 1, Issue 6) |  |

# APPENDICES

## APENDIX 1: SWOTs ANALYSIS

### Strengths

* Worldwide recognition as one of the biggest miners
* Operations in more than 45 countries in all continents in the world
* Has 8 subsidiaries, thus Amango can sell a subsidiary or two and still remain in business

### Weaknesses

* High debts of over $10 billion
* Credit ratings have been slashed to junk status
* Negative operation profits in one of its subsidiaries, Nickel Limited

### Opportunities

* Strategic heterogeneity in the mining industry
* Has 8 subsidiaries, thus Amango can sell a subsidiary or two and still remain in business

### Threats

* PIC threat to offload shares in case Amango’s disinvests from its South African subsidiaries
* Negative public image after Australia’s fatal mining accidents
* Native protests in one of Amango’s expected lucrative locations of mining, Canada

## APPEDIX 2: TABLES AND FIGURES



Figure 1: Progressive Discipline Matrix

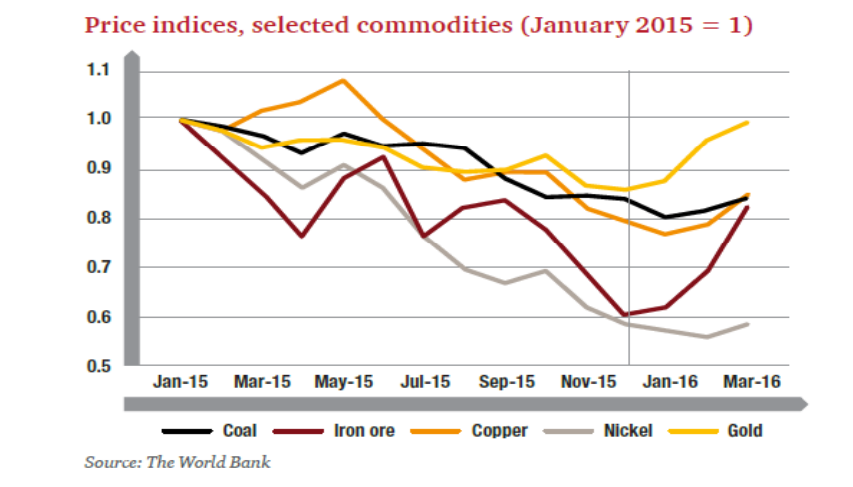


Figure 2: Price Indices for Select Commodities

1. *Refer to Issue 6: Strategic Disposal in Brazil* [↑](#footnote-ref-1)
2. *Refer Issue 3: Operational Risk & Industrial Action in Australia* [↑](#footnote-ref-2)
3. *Mining Business Outlook Report 2014-15, Newport Consulting, Sydney* [↑](#footnote-ref-3)
4. *Bruce, Stephen, PhD PHR. HR Policies & Procedures HR Daily Advisor. N.p., 25 June 2014. Web. 24 Apr. 2017.* [↑](#footnote-ref-4)
5. *Damodaran, Aswath. "PE Ratio by Sector (US)." Stern New York University, Jan. 2017. Web. 25 Apr. 2017* [↑](#footnote-ref-5)