Shareholder value optimisation in the platinum industry during recessionary times

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Abstract

The recession of 2008/09 was the worst decline of global markets since the Great Depression in the 1930’s. Some international markets lost 30 – 50% of its value in the period July to October 2008. The main reason for this dramatic drop in investor demand was the sub prime crisis in the USA where growth was fuelled by providing loans to house owners who could not afford the mortgage payments.

Platinum, which is the biggest mining sector in South Africa both in terms of revenue and employment, was not spared this sudden decrease in demand. Platinum market price lost more than 50% of its value, free-falling from a level of over $2000/oz to below $1000/oz in three months.

A recession poses a massive challenge to the management teams of companies. Their main task of ensuring shareholder value growth comes under enormous pressure from macro-economic factors outside of their control. Strategic objectives based on high growth and demand scenarios have to be adapted to a low demand and negative growth environment. This study embarks on a journey to determine what strategies the different management teams of the five top South African platinum mining companies implemented and how successful they were in optimising shareholder value during the recession period.

The impact of risk and return on investor demand were discussed on a theoretical level and tested on a practical level by evaluating the performances of individual companies and finding correlations between company performance and shareholder value optimisation. Companies who performed well by maintaining good profit margins, maintaining dividend payouts, managing risks well and continuing to build a good platform for future profit growth performed the best in optimising shareholder value during the recession period.
Recommendations are made based on theoretical and practical best practices for how to optimise shareholder value during future recessionary times. Opportunities for companies in the platinum mining industry for the next 3 – 5 years are also evaluated and summarized.

Keywords: platinum, recession, shareholder value
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## List of Abbreviations

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
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<tbody>
<tr>
<td>4E</td>
<td>Symbol used to indicate mining grades based on the total of 4 PGM elements</td>
</tr>
<tr>
<td>ASX</td>
<td>Australian Stock Exchange</td>
</tr>
<tr>
<td>BBBEE</td>
<td>Broad Based Black Economic Empowerment</td>
</tr>
<tr>
<td>CAPEX</td>
<td>Capital Expenditure</td>
</tr>
<tr>
<td>DME</td>
<td>Department of Minerals and Energy</td>
</tr>
<tr>
<td>EE</td>
<td>Employment equity</td>
</tr>
<tr>
<td>EPS</td>
<td>Earnings per Share</td>
</tr>
<tr>
<td>ETF</td>
<td>Exchange traded fund</td>
</tr>
<tr>
<td>FY</td>
<td>Full year (Financial year end)</td>
</tr>
<tr>
<td>FYF</td>
<td>Extrapolated forecast for full year performance based on half year results</td>
</tr>
<tr>
<td>GDP</td>
<td>Gross Domestic Product</td>
</tr>
<tr>
<td>H1</td>
<td>First half of year</td>
</tr>
<tr>
<td>H2</td>
<td>Second half of year</td>
</tr>
<tr>
<td>JSE</td>
<td>Johannesburg Stock Exchange</td>
</tr>
<tr>
<td>JV</td>
<td>Joint venture</td>
</tr>
<tr>
<td>LSE</td>
<td>London Stock Exchange</td>
</tr>
<tr>
<td>LTI</td>
<td>Lost time injury (Injury causing the injured to be booked off)</td>
</tr>
<tr>
<td>NGO</td>
<td>Non-government organization</td>
</tr>
<tr>
<td>P/E</td>
<td>Price over earnings ratio</td>
</tr>
<tr>
<td>PGM</td>
<td>Platinum Group metal</td>
</tr>
<tr>
<td>Pt</td>
<td>Platinum</td>
</tr>
<tr>
<td>ROA</td>
<td>Return on Assets</td>
</tr>
<tr>
<td>ROE</td>
<td>Return on Equity</td>
</tr>
<tr>
<td>ROI</td>
<td>Return on investment</td>
</tr>
<tr>
<td>SP</td>
<td>Share price</td>
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</tbody>
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