

## Chapter 4: Conclusions and Recommendations

### 4.1 Company performance in terms of optimising shareholder value

Table 4.1 ranks the companies' performance according to the growth in shareholder value as provided in Table 3.9 and 3.10. The companies are rated on a scale of 1 – 5 (1 being the best performer and 5 being the worst).

**Table 4.1: Ranking in terms of shareholder value optimisation during the recession period**

	<b>Anglo</b>	<b>Aquarius</b>	<b>Impala</b>	<b>Lonmin</b>	<b>Northam</b>
Overall performance ranking in optimising shareholder value during the recessionary period	3	4	2	5	1

*Source: Researcher's own compilation*

## **4.2 Conclusions: Influence of company performance (by evaluating strategic objectives) on optimising share holder value during the recession**

The literature provided in Chapter 2 provides an overview of certain strategic objectives a company's management team should employ in order to optimise shareholder value during recessionary periods. Chapter 3 reflects on how the five companies performed according to these objectives. A view from inside Impala Platinum is provided via completed questionnaires from its executive committee. As explained, the two main factors that ultimately influence an investor's decision is the combination between risk and return. A statistical study was done on the ratings provided in tables 3.8 and 4.1 (Appendix A 7, table A 7.1).

### **4.3.1 Risk**

Risk management involves a significant degree of individual company, as well as market specific risks (Section 2.4.4). From the literature, questionnaires and media reports the individual risks can be grouped into three different categories:

High importance risks: These risks include health & safety, environmental compliance as well as human resources and skills.

Medium importance risks: Operational upsets, electricity supply, political risks, asset risks, relationship with labor unions.

Low importance risk: Decline in product demand due to substitute products.

By evaluating company performance in risk management and taking into account different risk aspects, the five companies were ranked in terms of overall performance and a correlation was done with the companies' performance in shareholder value growth. Although there are some correlation between company risk management and shareholder value growth (Pearson correlation of 0.7), it has the worst correlation of the four main performance indicators. This can be an indication of:

- Risk management in the platinum sector is not perceived to be a major determining force in investor decision making as demand growth will by far outweigh possible individual setbacks.
- Different perceptions and views about risk management could exist.
- There is no consensus about the relevant importance of individual risks.

#### **4.3.2 Returns**

Dividend payouts (Pearson correlation of 0.8) and current profits (Pearson correlation of 0.9) show good correlation with shareholder value. When evaluating future profits, there seems to be a perfect match with shareholder value optimisation (Pearson correlation of 1.0).

Northam Platinum's good cashflow position, their new world renowned Booyendal project which should ensure exponential growth in the coming years, as well as its partnership with junior company Jubilee Platinum to develop and implement new ground breaking ConRoast technology, seemed to convince investors that it would provide the best return in the medium to long term. This ensured that Northam could optimise their shareholder's value the best during the recession period.

Impala Platinum's good cash position, its diversified mining and beneficiation assets, its ability to adapt as well as adequate human resource pool also seemed to have boosted investor confidence.

### **4.3 Recommendations on specific strategies to optimise shareholder value during future recessionary times**

To avoid major share holder value losses during future recessionary periods, the following recommendations can be made:

1) Ensure investor confidence in future profits by:

- Maintaining a low debt/high cash balance through: cost optimisation and technological improvements, good working capital management, conservative dividend policies, highly skilled workforce, diversified assets and good corporate governance.
- Investing in selected high growth (short payback period) projects, which could include: new mines or new technologies (This should be done only when cash is at hand).
- Due to the drop in company share prices acquisitions can be done at reduced prices. If a company's balance sheet supports such a move it could be a winning strategy to look for such value adding and high growth opportunities.
- Continued investment in Zimbabwe due to low cost of operation as well as Zimbabwe being used as a hedge against R/\$ fluctuations (Dollar being used as currency in Zimbabwe).
- Consolidation of the platinum industry to optimise economies of scale principles.

2) Protect current profits by:

- Drastically reducing costs while maintaining quality targets and on-time delivery.
- Streamlining of workforce, which can include layoffs, restructuring of management teams and utilising free time (due to reduced output) for training and development.
- Implementing a more mechanised approach.
- Boosting high yield mines and reduce output at low yielding ones.
- Avoiding toll smelting by having more flexibility and availability of smelting operations.

3) Maintain dividend payouts by:

- Maintaining a conservative payout policy during high growth periods.
- Ensure high profits and low financing costs due to debt.
- Proper working capital management.

4) Manage risks by:

- Implementing a well functioning risk management team.
- Evaluate risks in terms of probabilities and consequences.
- Eliminate and mitigate risk factors by careful and intelligent strategies and alignment with company goals.

## 4.5 Opportunities in the platinum industry for the next 3 - 5 years

There are a few market factors that indicate numerous growth opportunities in the platinum industry:

- Increased legislation in the automotive and manufacturing industry in general will boost demand for catalysts like platinum;
- Continued growth in platinum jewellery demand due to Chinese growth as well as smaller difference between gold price and platinum price;
- The fact that South Africa is centrally based between the Western world and Asia;
- Lucrative development prospects outside of Southern Africa like: Brazil, Russia, USA, Canada;
- ETF's are rather new phenomena whereby investors can invest in PGM commodities. ETF's allow more investors easy access to PGM commodities, which in turn will facilitate increased trading on PGM commodities, which should stimulate growth in platinum market price;
- Companies can boost their by embarking on vertical integration strategies via partnerships with end product manufacturers. Such a strategy will increase profits due to more value adding steps in the value chain as well as help the company to boost demand by having contact with end product customers;
- Bigger companies like Anglo Platinum and Impala Platinum could widen their economies of scope by investing more in by-product utilisation and optimisation;
- Investing in new technologies (like the Jubilee/Northam ConRoast technology) could ensure a decline in costs while market price increases. Such a situation would see enormous growth in profits as well as shareholder value.