

Anglo american dissatation

Finance



Introduction Anglo American Plc is a mining conglomerate and is one of the largest companies within the mining industry. It originally started in 1917 as a gold mining company going by the name of Anglo American Corp; the name was created when the initial starting capital of ? 1million was raised from U. K. and U. S. sources (Forbes 2006). In 1999, following a major strategic review, Anglo American merged with Luxembourg headquartered Minorco to form Anglo American Plc, with its primary stock exchange listing and head office in London and secondary listings in Johannesburg, Switzerland, Botswana and Namibia (Anglo American 2012d).

Anglo American “ operates in Africa, Europe, South and North America, Australia and Asia” and is a global leader in the mining of both platinum and diamonds (Anglo American 2012c). They employ approximately 100, 000 people (Anglo American 2012c) across the world, both in the mines and in local offices, with the majority of employees being based in South Africa, 79, 000 (Anglo American 2011). Anglo American employs 10, 000 people in South America, which is the second largest proportion of employees in the company, and employs 11, 000 people in other countries across the globe (Anglo American 2011).

South Africa produces the highest amount of revenue by origin, \$17, 855million in 2011, which accounted for 49% of the group’s total revenue for that year (Anglo American 2011). When comparing all the countries’ revenue for the year, South Africa has a very dominant position, as all the other countries have less significant revenues of \$5, 058million or lower (Anglo American 2011). This suggests that South Africa is the main country for

production. They have a highly diversified mining portfolio, comprising of many metals and minerals.

In 2011, Anglo American increased their shareholding to 85% in the world's leading diamond company, De Beers (Anglo American 2012a), which accounted for 6% of the share of Anglo American's operating profit in 2011 (Anglo American 2012c). The company employs 16, 000 people in the diamond division, in North America and Africa, which is the second largest percentage of employees across the group (Anglo American 2011). Another subsidiary of Anglo American is Anglo American Platinum Ltd. AAP), of which they own 80% and employ 55, 000 people, which is the largest proportion of employees across the company, 55% (Anglo American 2011). AAP is the main producer of platinum in the world, accounting for 40% of the global supply (Anglo American 2012c). Iron ore is the most predominant area of Anglo Americans operating activities with the largest share of the group's profit in 2011 of 41%, \$4520Million (Anglo American 2011). This is significant in comparison with the second highest area of operating profit, copper, which attributed to \$2461Million, 22%, of the operating profit.

Anglo American also produce metallurgical and thermal coal, nickel and other materials, which, although contribute to the company's profits, are less significant in comparison to the more major operations of diamond, copper, iron ore and platinum. Anglo Americans main corporate aim is to, " be the leading global mining company becoming the industry's largest employer, partner and investment of choice" (Anglo American 2012f). They believe a " sound strategy, sustainable development and good corporate governance are essential to achieve this goal". (Anglo American 2012f) Methodology

At the first meeting, the group decided that the company study was to be worked on two days a week and a table was drawn up in order to manage the time efficiently to ensure the deadline was met. The table comprised of a ' plan' and ' achieved' column for each date during the weeks leading up to the deadline of 14th December, see Appendix A. After the first meeting, the group went away to do some individual brief research on the given company in order to get background knowledge of Anglo American and so the in depth research for each section could be carried out at the next meeting.

In order to make the most of the time given, the group was divided so that each of the main sections were researched thoroughly in order to give a more detailed report. The group followed the recommendations, allowing a third of the time to carry out research, a third on writing up the report and a third on editing and producing the final piece. After the research had been carried out on all sections, different members of the group began writing up different sections of the report using the information previously obtained.

The group then looked over each other's sections in order to make sure all relevant information was included, to check for grammar and spelling mistakes and to make sure enough references had been used. This was important to ensure all members had a good understanding of each section. Anglo American's website and annual reports were the main source of information for the company study. The issues surrounding Anglo American during the past year allowed for many relevant news articles to be widely available for use within the financial management section.

After the report had been completed, the group booked weekly sessions in the Techno booths with print outs of the completed report, to ensure all

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members of the group were familiar with all sections. The presentation was then brainstormed and the main points put on a PowerPoint, which then allowed for the presentation to be practiced over a couple of weeks prior to the deadline. Many rehearsals of the presentation were carried out to ensure it filled the time allocation required and it flowed well.

Problems occurred with the methodology closer to the deadline, as members of the group had less spare time to work on the company study, due to other assignments being due in around the same time. Financial Accounting Corporate Governance As a global organisation it is crucial that Anglo American complies with the highest standards of corporate governance, to ensure any agency problems within the company are minimised and the company is well run. Anglo American aims to “ direct and control its company in a transparent and accountable way. ” (Anglo American 2012f).

From the 2010 board effectiveness review, an action plan was created to improve the relationship between the board and management, which could have helped reduce the conflicts of interests and agency problem. The action plan was to Increase contact between directors and management between board meetings and “ Introduce more 'free flowing' informal discussions outside board meetings - the pre-board meeting dinners will be more 'structured' whilst retaining an informal style” (Anglo American 2011). In 2011, this action plan was reviewed and changes within Anglo American were made. The flow of management information to the Board was enhanced and the frequency of dissemination of this was improved. ” “ Structured board dinners also took place during the year where matters such as strategy were discussed” (Anglo American 2011). This shows good corporate

governance by Anglo American as areas of the business which need work are being identified by the company and being acted upon accordingly to improve the effectiveness and control. The Anglo American board is chaired by Sir John Parker and consists of two executive and eight non-executive directors. 0% of this board is made up by women, this suggests that the Anglo American board could be more diverse. In the current business economy, "Regulators, politicians and shareholders are each stepping up pressure on companies for greater board diversity as part of a drive for better governance" (Robertson 2012). The Lord Davies Women on Boards report set a target of 25% minimum of board members to be female by 2015. Anglo American stated in their annual report their "intention to increase the representation of women on the Board from 20% to about 30% by 2013" (Anglo American 2011), which is two years below the national expectation.

This is an example of good corporate governance by Anglo American as it is adhering to policies and targets which are not compulsory and also has disclosed in its annual statement, its future intentions to increase diversity in the boardroom. Anglo American also has a nomination committee which "aim is to build on the existing diversity of the board by identifying and nominating suitably qualified candidates" (Anglo American 2011). This is viewed as being good corporate governance by the company as Anglo American is making sure before directors are appointed that they are right for the job and the best candidate is chosen.

To do this, they are considering both men and women for the job roles which is widening the talent pool. The Government passed the UK Bribery Act 2010,

under this act the “ defence for a company against this liability is to prove that it had ‘ adequate procedures’ in place to prevent bribery” (Wilkinson 2010). To comply with this act, Anglo American have implemented the necessary procedures to ensure that its business integrity policy operates effectively, so the risk of bribery is minimised as far as possible (Anglo American 2011).

During the year, Anglo American developed enhanced guidelines on the acceptance and provisions for gifts and entertainment and provided specific guidance on the procedures to be followed where risks were considered higher. This is a good example of corporate governance as this would reflect positively for shareholders and potential investors, as new laws are being adhered to. In accordance with the UK Corporate Governance Code, Anglo American continue to propose the re-election of all its directors on an annual basis (Anglo American 2011), which ensures good corporate governance, as directors will always be of the highest quality possible.

Within Anglo American “ The Audit Committee plays a pivotal role in ensuring high standards of corporate governance and provides assurance to the Board on its reports to shareholders” (Anglo American 2011). In Anglo American, the audit committee comprises of four independent non-executive directors. The audit committee is also charged with reviewing the results of the key risk management process, “ being involved in the risk management procedures of the company” (Anglo American 2011).

However, to improve the governance in this area Anglo American could disclose the main risks to the company and the strategy it has in place to deal with these risks. The Audit committee is also responsible for the <https://assignbuster.com/anglo-american-dissatation/>

whistleblowing programme which the group has had in place for a number of years. It “ is designed to enable employees, customers, suppliers, managers or other stakeholders, on a confidential basis, to raise concerns in cases where conduct is deemed to be contrary to our values” (Anglo American 2011).

This shows good corporate governance as there is a programme which has been set up by the group where stakeholders, can report failures and discrepancies within the company, to independent non-executive directors. However, Anglo American could disclose the procedures which are to be followed when issues are reported. Within Anglo American, the board delegates certain responsibilities to a number of committees; these include the Remuneration committee, Nomination committee and Audit committee.

In coherence with the UK combined code of corporate governance there “ should be a formal and transparent procedure for developing policy on executive remuneration and fixing individuals director’s remuneration packages, no director should be involved in deciding their own remuneration” (FRC 2012). Anglo American’s remuneration committee seeks advice from external advisers Pricewaterhouse Coopers LLP, Linklaters LLP, Mercer Limited and Deloitte LLP, to help determine the director’s remuneration packages.

Anglo American describes its policy as being “ formulated to attract and retain high-calibre executives and to motivate them to develop and implement the Company’s business strategy in order to optimise long-term shareholder value creation” (Anglo American 2011). The remuneration mix is an important part of good corporate governance as it ensures that the

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company has an appropriate blend of basic and performance related pay as the remuneration committee will see as suitable.

This will ensure that the directors will strive to achieve the main goal of increasing shareholder wealth. At the present time, director's remuneration is calculated on the industry median for the mining sector and is adjusted by the director's performance and experience. Anglo American could improve their corporate governance by setting director's remuneration packages at the industry averages only. Within Anglo American, each executive director's total remuneration consists of basic salary, annual bonus, long-term incentives and benefits.

This ensures that an appropriate balance is maintained between fixed and performance-related remuneration (Anglo American 2011). However, the sheer value of some of the bonus packages is likely to affect shareholders wealth and the willingness for potential investors to invest. An article from the Telegraph explains that the chief executive of Anglo American was handed a 38 per cent increase in pay last year, with a total package worth ? 2. 17m, however the cash element of her annual performance bonus was increased by 134 per cent to ? 962, 000.

Never the less, at this time shares in Anglo American fell by 14 per cent over the course of 2011 (White 2012). This could be viewed as bad corporate governance by the company as despite the share price falling the chief executives pay has been dramatically increased. To help the directors ensure they have a meaningful stake in the performance of the company, in 2004 the remuneration committee devised a Bonus Share Plan (BSP), “

which requires executive directors to invest a significant proportion of their remuneration in shares" (Anglo American 2011).

This demonstrates good corporate governance, as it aligns the directors' interests with that of the shareholders, reducing the agency problem. The bonus share plan also weakens independence of the directors within the company, as it is giving them greater interest within the company on a personal level. Training is offered to new directors in order to develop a comprehensive view of Anglo American's company, continuous training is also available to directors throughout their employment.

However, the governance could be improved by disclosing in the annual report the nature and the schedule of the training, so the stakeholders know what is being covered in the induction training. Within the annual report for Anglo American there is a statement of director's responsibilities, which sets out what is expected of the directors. The board should present a balanced, true and fair view of the company's position and prospects. Under company law the directors should not approve the accounts unless they are satisfied that they give a true and fair view of the affairs of Anglo American.

This shows good corporate governance from the company as in the annual report it breaks down the directors responsibilities, however this could be improved by giving details to the users of the annual reports about what responsibilities each director has. A breakdown of the separation of roles between the chairman and director could also be disclosed in the annual report, which will ensure that one person is not given too much power which could prove to be very risky for Anglo American.

The skills and knowledge of all the board members are summarised in the annual report, to give the shareholders and stakeholders an idea of their previous experience and the wealth of knowledge they bring to Anglo American, which shows good corporate governance by the company. Overall Anglo American shows good corporate governance with compliance to the UK combined code of corporate governance. The company has disclosed majority of information but could improve by disclosing the strategies in place, especially for the risk management prospective and its whistleblowing and training schemes.

Stating the responsibilities of the chairman and chief executives would also ensure that corporate governance is being applied at a continuous high level. Stakeholders UK corporate law requires companies to be principally accountable to their shareholders. However, Anglo American believe that their shareholders' best interests are served when the company makes sure all appropriate stakeholders are kept happy, not just the shareholders (Anglo American 2011).

It is in all stakeholders' best interests that the company not only survives, but flourishes long term, Anglo American therefore seek to be the partner of choice for its stakeholders by operating in a way that is acceptable to them all (The Times 2012a). Anglo American needs their stakeholders to support them in order to meet the organisations objectives', for example treating staff well and respecting local communities, will make it easier to recruit new people necessary for growth.

In the long term, this will create more value for shareholders. Employees are possibly the most important stakeholder for Anglo American, employing
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approximately 100, 000 people around the world (Anglo American 2012c), however working within the mining industry has been voted one of the top ten most dangerous jobs (Korch 2012). To help protect this stakeholder group, Anglo American has adopted strict health and safety regulations which are outlined in the safety way, ensure that employee's working conditions are as safe as they can possibly be. The safety way is a comprehensive framework of roles and responsibilities supported by a set of safety principles and mandatory safety standards" (Anglo American 2012b). The strategy outlines Anglo American's risk-based approach to safety based on ten key factors that support effective safety management; leadership, risk management, culture, competence, assurance, monitoring, planning, standards, communications and learning (Anglo American 2012b). Employees in management positions are also seen as stakeholders within Anglo American, as they are responsible for making key business decisions within the company and without the relevant information they will not be able to make reliable decisions. Unions are a very important stakeholder for Anglo American as they try to make the employees' time whilst working for Anglo American as safe and as beneficial as possible. Previously, Anglo American have clashed with unions and issues have been raised, as seen in The Telegraph (2011), resulting in negative media interest and damaging the reputation of the company (White 2011). This, in turn, has a negative impact on all stakeholders within the company.

In 2010, Anglo American received an " Employer incentive award for good performance" due to their " sound labour relations with trade unions, as well as the implementation and enforcement of sound occupational health and

safety practices and initiatives” at the South African trade unions solidarity awards for 2010 (Anglo American 2012k). Examples of some of the trade unions that are recognised within Anglo American are The National Union of Metalworkers of South Africa, The National Union of Mineworkers, The United Association of South Africa and The Togetherness Amalgamated Workers Union of South Africa.

Activist groups can be classed as stakeholders, as mining involves using the world’s natural resources and in some cases can lead to long term damage to the environment. Such groups are passionate about protecting the environment and if they feel that Anglo American are not protecting the environment enough, they put pressure on the company. On 28 Sep 2012, War on Want released an article discussing the miner’s strikes in South Africa and the poor working conditions of the employees (War on Want 2012).

This could create negative publicity and disrupt operations, therefore affecting shareholder wealth. In response to these activist groups, Anglo American has recently developed a Socio-Economic Assessment Toolbox (SEAT) as a means of further improving the impact of its activities, e. g. setting up training programmes for local communities (The Times 2012b). The contractors that work on the various sites across the globe are also seen as stakeholders within Anglo American, as they carry out the majority of the work on civil engineering projects, such as digging new mines.

Contractors are important stakeholders in Anglo American as they have a lot of responsibilities when undertaking projects and if these are not carried out properly, then problems can arise. If quality standards were compromised,

due to disillusioned contractors, then this could have health and safety consequences in the future. Contractor management is also an important consideration when using contractors as external stakeholders, for example local communities may accuse Anglo American of poor social performance associated with these contractors.

This is the reason that the social impact of contractors on the local area is managed professionally. Customers are a vital stakeholder within Anglo American, but due to the nature of the industry, the majority of Anglo American's customers are countries, " China is a key customer of Anglo American's products" (Anglo American 2012m). Anglo American has many different key performance indicators (KPI), divided into investing in world class assets in the most attractive commodities, operating safely, sustainably and responsibly, employing the best people and organising efficiently and effectively (Anglo American 2011).

One of the main operating KPIs is the work related fatal injury frequency rate (FIFR). FIFR is calculated as " the number of fatal injuries to employees or contractors per 200, 000 hours worked" (Anglo American 2011). This information is most relevant to the employees of Anglo American, and the unions representing them, as they are the ones who are directly affected by the injuries of co-workers. The FIFR for 2011 shows a small increase in fatalities from 15 to 17, however, in 2009 there were over 50 fatalities which shows that Anglo American is implementing the correct strategies in order to minimise these fatalities.

Despite the downward trend, Anglo American targets 0 fatalities, showing that Anglo American show a keen interest in their employees' welfare.

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Another operating KPI is the lost time injury frequency rate (LTIFR), which is the amount of lost time from injuries (LTIs) per 200,000 hours worked (Anglo American 2011). An LTI is an injury which leaves the employee unable to perform their regular duties for a the period after the injury was incurred (Anglo American 2011).

If Anglo-American have a higher FIFR or LTIFR than the industry average, it may put off possible employees from applying for a position, which could result in the company not being able to employ the most knowledgeable people, which can have a negative impact on shareholder wealth. Another operating KPI is greenhouse gas emissions which is measured in CO₂ equivalent emissions (Anglo American 2011). Environmental activist groups, such as Greenpeace, are likely to be interested in this key performance indicator as greenhouse gases are very harmful to the atmosphere and have been linked with global warming.

The annual report from 2011 shows a reduction in Greenhouse gas emissions than in 2010, signifying that Anglo American are moving in the right direction in terms of reducing their carbon footprint. Total water use is another operating KPI and includes water used for primary activities, which affect the people who live in the area surrounding the mine. Some of the regions that Anglo American work in, have sparse water supplies and therefore any water used by the company may result in less water for the local communities.

Reducing this KPI is important to Anglo American, as if this is not managed it may put off potential employees within these communities from applying for a position within the firm, and may give Anglo American a bad reputation.

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The final key operating KPI is Enterprise Development, which is defined as the number of companies supported and number of jobs sustained by companies supported by Anglo American enterprise development initiatives (Anglo American 2011). The stakeholder that is most closely linked to this key performance indicator would be the local community in which Anglo American operates.

Results from this KPI show that Anglo American is currently supporting 38,681 businesses which is much higher than their target of 3,500 businesses (Anglo American 2011). A key KPI relating to employing the best people is voluntary labour turnover, which is the number of permanent employee resignations as a percentage of total permanent employees (Anglo American 2011). In 2011, the percentage of employees who resigned was 3% which shows a decrease of 2.3% from the previous year (Anglo American 2011).

This shows the company is striving to improve employee morale and employee working conditions. This KPI is important for the employees of the company, as it indicates the number of people who may have been unhappy within their work. An important employment KPI in recent times is gender diversity, which represents the percentage of women and female managers employed by Anglo American (Anglo American 2011). In 2011, the group managed to increase the percentage of female employees from 14% to 15% and the total number of female managers from 14% to 21%.

This KPI can be linked to both the employees and unions of the company, as both want to make sure Anglo American has equal opportunities for both genders in order to create a harmonious working environment. The first "organising efficiently and effectively" KPI is asset optimisation, which is <https://assignbuster.com/anglo-american-dissatation/>

defined as the sustainable operating profit benefit from optimised performance of the asset base of the core businesses (Anglo American 2011). An asset optimisation strategy is comprised of asset management and asset monitoring and a well organised strategy can reduce avoidable maintenance and interruption times.

Managers of Anglo American will be interested in an effective asset optimisation strategy, as it will allow them to make effective decisions with regards to the best method of maintaining and using the company's assets. The other organising KPI is the supply chain, which is the "operating profit and capital spend benefits to Anglo American resulting from centralised procurement from core businesses" (Anglo American 2011). An effective method of managing the supply chain is by local procurement, as it saves transport costs by supplying across the world.

Therefore, managers of Anglo American will be interested in this KPI as it allows the company to build relationships with key contractors/ suppliers that can produce mutually beneficial outcomes. The results for the most recent financial year show an improvement to the supply chain of \$472 million from the previous year. In the annual report Anglo American also have a section of investment KPI's, these include return on capital employed and underlying earnings per share. The results from the annual report show an increase in both KPI's from 2010 to 2011, 24.8% to 26.5% and \$4.13 to \$5.06 respectively.

Investment KPI's are only relevant to shareholders. It enables shareholders to check how well Anglo American generates profit from the capital invested and provides them with a comparison to the previous year. Despite the fact

that Anglo American has a fairly extensive list of key performance indicators, there are other factors that have not been accounted for that would benefit the company's stakeholders. Antofagasta Plc. , another company within the mining sector, uses operational KPIs that state the volumes of the most important metals that has been mined during year and compared with previous years (Antofagasta 2011).

Anglo American could create this form of KPI to ensure they increase the level of production for the most important materials each year, which would be useful to the majority of stakeholders as they would be able to see how much the company has expanded its' production over the year. Contractors would be able to use this information to estimate how the level of production will increase over the following year to put aside enough resources in order to carry out any projects that Anglo American may have in the future. London Mining Plc. ave a KPI for number of employees trained, which gives the number of people who have undergone professional training within the year (London Mining 2011). Anglo American could use this as one of their KPIs to show whether the management have executed the relevant training schemes for employees. Customers would be the most likely stakeholder to benefit from this KPI, as if there is a high number of people that have been professionally trained, it implies that their staff are trained to the highest standard and will have the correct knowledge needed in order to carry out best practice.

Employees would find this information useful to determine whether they might be entitled to be given professional training by the number of employees put on schemes within the year.

figure 1, it can be seen that this increase is reflected in the movement of the FTSE 100 which could suggest that there may be external factors also affecting Anglo American at this time. On 23 March, Anglo American sold a €750m 10 year euro bond which could have been due to funds being needed more within the company (Euroweek 2012).

Investing in the euro bond may have been to help create or strengthen values of the company, especially within Europe at this particular time of the European Sovereign Debt Crisis. As shown on figure 1 between 23 March and 29 March the share price fell dramatically. This could be due to shares being sold by shareholders that primarily invested in Anglo American, as they supported the Eurozone. On 1 June, Anglo American re-entered the euro bond market which “ several bankers speculated that they returned out of prudence” (Euroweek 2012). The share price shot back up, which could have been caused from the amount of demand for the deal, this suggested investors were pleased to see Anglo American again. Anglo American was in talks with Peru on 29 June in relation to a potential local sustainable development to accompany a mining project in the region, and had proposed a \$118 million investment (Guerra 2012). \$36.9 million of the investment was budgeted to install a pumping system in to two of the country’s rivers (Guerra 2012).

The fact they are supporting and helping Peru is a sign of good corporate socialresponsibilityfor shareholders and potential investors which resulted in a ? 0.66 increase over 4 days. Between 10 August and 30 August, there is a noticeable decrease in the share price which would seem to be an internal factor as the FTSE All Share does not seem to follow suit during this period.

An outside article was realised on the 10 August stating that Anglo American were dismissing claims that a shareholder spring was expected to occur which was broadcasted in the Telegraph (2012).

The article in the Telegraph (2012) stated that shareholders had contacted Sir John Parker, Chairman of Anglo American expressing their dissatisfaction with the CEO, Cynthia Carroll. Sir John Parker sided with the CEO which fuelled the shareholders to take their complaint to one of the company's directors. This highlighted to the shareholders the lack of support they were receiving, which therefore could be the internal factor forcing the share price down.

When comparing Anglo American with other companies within the mining industry, the movements in the FTSE share price are mirrored more closely by Antofagasta than Anglo American, which may suggest that their beta is closer to 1. [pic] Throughout the period analysed, the share price movements for Anglo American is quite volatile in comparison to the FTSE All Share. Between 2 April and 7 June, the movement in share prices between both Anglo American and The FTSE is extremely similar with Anglo American's movement being more responsive.

This could signify that external factors affecting the whole market have affected Anglo American the same way but at a more severe rate, this is shown by their beta of 2.08, see Appendix C. With the FTSE having a perfect market beta of 1 the beta value of Anglo American is in perfect correlation with the movement of share prices, see Appendix B, as in the majority of places the movement is the same but double as volatile. With the beta value

being considerably higher than 1, shareholders or investors are likely to be risk seeking rather than risk averse.

The further away from 0 the beta value is, the lower the shareholder value, but the potential for a high return is there. As seen in the London Business School Risk Measurement Services publication the commercial betas for the 3 quarters up to September 2012 are of a similar value, see Appendix C, with the average being 1.55. This is significantly lower than our calculated beta of 2.08. However the "Risk Measurement Service uses estimates based on an analysis of variable factors, and is therefore no way guaranteed" (London Business School 2012), whereas the beta of 2.8 was calculated based on weekly data taken from Thomson Analytics. Although the beta of 2.08 is the less favourable one, it is the more accurate out of the 2 so will give a better indication of shareholder value and the risk an investor may take. Both betas are aggressive in relation to the market beta however the commercial calculation is less so. Unless a serious investor were to calculate the beta themselves, using actual data for the company, they would be likely to base an investment decision on estimated inaccurate beta values.

A shareholder's decision to invest can be influenced by another confounding variable, the company's investment rating. There are 3 main investment ratings that stakeholders use and rely upon these are Moody's, Standard & Poor's (S&P) and Fitch. Anglo American are rated on Moody's with a long term investment rating of Baa1 and the equivalent long term rating on S&P of BBB+ which is noted to be a lower medium grade of investment. S&P define their BBB+ rating as the company having "adequate capacity to

meet financial commitments, but more subject to adverse economic conditions" (Standard and Poors 2012).

Although Anglo American's ratings could be higher they seem to be in a good stable financial position and therefore an attractive investment for potential shareholders. The short term ratings for Anglo American are of a slightly better position than the long term ratings, with Moody's being P-2, which implies they " have a strong ability to repay debt obligations" (Moody's 2009). This shows the company is fairly liquid giving reassurance to shareholders because if the company was to enter default there would be a higher chance of shareholders getting a return.

The S&P credit rating for Anglo American was the same in 2011 as in 2012 with a long term rating of BBB+ and a short term rating of A-2 for both. This gives investors the security of Anglo Americans stable credit rating and in turn ability to pay off debt. Although investment ratings can be used to help determine whether to invest or not they should not be relied upon, as companies with the same rating do not have absolutely equal credit quality. It does not take into consideration external factors such as a change in money rates and it ignores the length of maturity.

	2011	2010
Interim dividend	28	25
Recommended	46	40
final dividend		
Total dividends	74	65

Anglo American has a clear dividend policy in which a base dividend will either be increased or maintained from year to year (Anglo American 2011).

An interim dividend of 28 US cents per ordinary share was paid on 15 September 2011, and for the 2011 financial year " The Board proposes a final dividend of 46 cents per share, giving a total dividend for the year of 74

cents, a 14% increase” (Anglo American 2011) see figure 3. During the year the Group paid dividends of \$818 million to company shareholders, which is a huge increase on the \$302 million paid out in 2010, and \$1, 404 million in dividends to non-controlling interests.

Based on shares eligible for dividends at 31 December 2011, this will result in an estimated distribution of \$557 million of shareholders’ funds, of which \$350 million will be distributed by the parent Company. The interim dividend for 2012 has increased by 14% to 32 cents per share, which continues their policy of a base dividend being slightly adjusted after discussion to ensure the maintenance of their investment grade rating (Anglo American 2012n). Dividends are proposed to be paid out in cash and not scrip issues therefore the \$557 million will be shown on the balance sheet, therefore affecting cash flows.

Anglo American have a fairly attractive dividend yield of 3. 32% in 2011, when compared with other mining companies within the FTSE 100, see Appendix D. From the four companies analysed the dividend yield has increased from 2010 to 2011, apart from BHP Billiton. This suggests that either companies are issuing a higher dividend or the value of shares has dropped. In Anglo Americans case the share price has fallen over the given period, but the annual dividend has also increased. As a percentage of earnings the dividend for 2011 was 14. 51%, which had increased from 11. 97% in 2010.

Considering the high capital investments that Anglo American commit themselves to, this is fairly good proportion of earnings attributable to shareholders. The optimum dividend policy would offer shareholders a

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constant, steady dividend paid at regular intervals now rather than later; this is exactly what Anglo American has to offer. However due to the Group's aggressive investment plans for future growth, which includes three major projects; Barro Alto, Los Bronces and Kolomela, the constant regular dividend policy is likely to cease or at least come under discussion at board meetings.

Shareholders have questioned the decision to invest money into these projects, CEO Cynthia Carroll has announced that the 3 projects and another one expected to commence in 2013 will contribute \$6bn to dividend pay-outs. Although the expected change in dividend policy has undoubtedly caused controversy with shareholders, the company has proven that investment into new projects is necessary to maintain a high profit and continue to pay a regular dividend in the future (Vuuren 2011).

Over the past few years Anglo American have had a strong, fairly positive balance of debt and equity, which has allowed them to have the flexibility to attain more finance when necessary. Net debt at 30 June 2012, including related hedges, was \$3, 124 million which was an increase of \$1, 750 million from the net debt at 31 December 2011. Net debt at 31 December 2011 comprised \$12, 873 million of debt, partially offset by \$11, 732 million of cash and cash equivalents (Anglo American 2011).

However a dramatic net debt decrease of \$6, 010 million occurred from 31 December 2010 to 31 December 2011 which reflects strong operating cash flows and proceeds on the disposal of 24. 5% of Anglo-American Sur (Anglo American 2011). Anglo American is funded mainly by equity as shown by the debt and equity ratios in Appendix D. At 30 June 2012 for every \$1 of capital

invested by the shareholders \$0.655 is funded through debt, which is a slight improvement on the debt equity ratio of 0.677 at 31 December 2011.

The ratios indicate that the group should easily be able to generate enough cash to satisfy its debt obligations as the group has enough room to manoeuvre its current levels of finance. It is important that a company's debt-equity ratio is not too high as this can lead to increased interest payments and an enlarged risk of damaging their credit rating. This is perhaps the reason that the group made efforts to decrease the debt-equity ratio from 31 December 2010 from which it was 0.755. Anglo American has a sound equilibrium between debt and equity as seen by the gearing calculations in Appendix D.

Over the past two years, the figure has increased gradually from 45.71% at 30 June 2010 to 50.30% at 30 June 2012, which could be due to an increase in long term liabilities. The market value of equity has also increased but at a slightly lower rate, causing the gearing ratio to increase steadily. However, the value of equity is based on the market value of the shares at 30 September 2012 for each of the three years to ensure a more accurate comparison, so when considering each year in turn, it would not show the true value of gearing.

Figure 3 shows the comparison of the percentage of gearing compared with the percentage of gearing using the market value of equity. Both show a similar pattern with gearing gradually increasing over the two years, but a steeper incline for the gearing based on the share price at that year. This could be a result of the share price dramatically decreasing from 25.26 at

30 September 2010 to 18. 17 at 30 September 2012, in turn giving a lower value of equity when using the market share price.

Calculating the gearing using the share price at that time, rather than the market value today, shows the gearing in a way that the company would have wished to portray. Overall, it can be seen that the share price movements of Anglo American Plc. generally follow the market trend, signalling that external factors are the main influence on any change in share price. The erratic behaviour of Anglo American's share price makes an investment in this company quite risky. For example a variation in the market share price due to a change in regulation is likely to have more of an effect on Anglo American as their beta value is 2. 8. To lower the risk they could strengthen themselves against external factors by introducing or improving their internal control systems, minimising their exposure to the external environment and in turn lowering their beta. The beta of Anglo American demonstrated by how the share price movement is generally the same as the market but exaggerated, which shows that it is an aggressive beta. When comparing with other companies in the mining sector Anglo Americans beta value is higher than most but not an anomaly, see Appendix C.

All the companies within the mining sector in the FTSE 100 have a beta value higher than 1, making them all aggressive, risky investments, with Anglo American being one of the more risky options. Anglo American may seem quite risky when using the beta, however when considering this alongside the company's gearing it could be considered as an attractive less-risky investment. Anglo American's gearing is fairly average, but it could be

improved by minimising the amount of debt that contributes to the company's finance, also decreasing the debt equity ratio.

Although the company may be seen as becoming increasingly highly geared, they are constantly investing in new projects to increase shareholder wealth in the long term, which makes the level of gearing more acceptable. Anglo American's investment rating is fairly high on Moody's credit rating table, which shows there are signs for improvement but also space for fault. The rating is based on many confounding variables, with Corporate Governance having a major influence on the overall rating. Although Anglo American has demonstrated fairly good corporate governance, there is still room for improvement in many areas.

Another variable that could affect the rating is the dividend policy on offer to shareholders. Anglo American offer a very attractive policy with a base amount and regular payments, which is the optimum option for shareholders, as they know what to expect and when to expect it. After taking into account all aspects of the financial performance of the company, an investment in Anglo American would be recommended for a risk seeking investor expecting regular dividend payments. Anglo American is a worthy investment, as they have a number of new projects lined up for the future and have proven to have had huge success with previous projects, leading to satisfied shareholders. However, the value of Anglo American has declined over the period analysed, with the share price falling from 22.29 to 18.17, but this is forecast to increase over the near future due to all the projects recently invested in. If the global economy was to enter a double dip

recession, Anglo American is not likely to be affected much by this, due to the strong commodity values and derivatives. Strategic Management

Anglo American is currently one of the world's top mining companies and has held this position for a number of years. Their main goal is to be the “leading global mining company, becoming the investment, partner and employer of choice” (Anglo American 2012f). A way in which Anglo American wish to become the global leading mining company is to outperform competition, by their structure of organising efficiently and effectively (Anglo American 2012l). They aim to achieve this from being more focused and performance orientated, and believes their Asset Optimisation (AO) programme will help to do this (The Times 2012).

Anglo American wanted to enhance the health and performance of their operations, so designed an Asset Optimisation programme in order to achieve a holistic approach to this. It has allowed a more open working culture giving employees the encouragement to not only work together but contribute their own ideas to improve the business. A major contributor from the AO programme, that has added value across the group, is the development of the programme, in which it has been introduced into the day-to-day business of Anglo American.

This programme has added value and strength to Anglo American as to date they have saved well over their target of \$1 billion from their core operations and hope the strategy continues to present positive outcomes in the future (The Times 2012). To improve efficiency, each individual area of production is focused on lowering its costs, such as lowering excessive waste or managing the usage of natural resources. Water is vital to Anglo American in

order to carry out their operations and also for the communities around them, especially as some areas are the most water-stressed regions in the world. To reduce water usage, a 10 year strategy is in place which involves making projects water resilient, investing in new technology and building water infrastructure. By 2030, Anglo American hope to have reached the strategic objective of zero net water consumption. Not only does this strategy improve the efficiency of production, it also engages with stakeholders, which in turn benefits the community (Anglo American 2012) and will reduce the agency problem between directors and the local population.

Investment is a strong part of Anglo American's strategy, and they feel that the investments they have made into large scale assets, with long life cycles, have given them a clear advantage through the low costs attached to them. The commodities that Anglo American specialises in are those that they believe hold the best returns over a long period of time, and even during the fluctuations that occur over an economic cycle.

Anglo American also offers derivatives of their commodities which is a good strategic decision for them to take, in the sense that they are guaranteed a certain level of return for those derivatives. However if the demand and in turn the price dramatically rises for those commodities Anglo American could receive lower than the market value at that time. Therefore the option to offer derivatives not only allows for the opportunity of stability for an agreed amount of income, but also the threat to lose out on an increase of market value of that commodity. Operating safely, sustainably and responsibly is embedded in everything" (Anglo American 2012) that Anglo American does.

Employee safety is a huge part of any decision made by the company and they are persistent on reaching their goal of zero harm. The 5 years prior to Cynthia Carol becoming Anglo Americans CEO there was a total of nearly 200 fatalities, whereas the 5 years following her position as CEO the number of fatalities dropped to 77.

This could be down to the change in strategy and how the importance and safety of employees was considered invaluable to Cynthia; this was demonstrated by her drastic decision in 2007 to close the Rustenburg mine instantly due to the risky nature of it (Carroll 2012). The health and wellbeing of employees was taken a step further when HIV/AIDS and general healthcare services were not only provided to employees but also their dependents, spouses and other stakeholders.

This has been recognised as world class and has received a number of rewards for it, 'The Business Excellence Award for Best Workplace Program' being one of many (Engineering & Mining Journal 2009). Minimising the effect that their operations have on the environment is something that Anglo American also considers in detail. Over the years Anglo American have received a number of awards that prove their commitment to the environment, in 2011 they received the three out of four awards at the 'Three Nedbank Capital Green Mining Awards'.

They were recognised for their rural research project at Sishen mine where management decisions were aligned with the long term sustainability objectives of the Taolo Gaetsewe District and the surrounding region (Nedbank 2011). Anglo American hope that this project will make a positive difference to community development, and in turn bring them closer

together, building respectful associations within the society they work in (Anglo American 2012I).

They believe that this strategy along with strong governance and solid risk management will create trust amongst the company and its stakeholders and fundamentally enable the delivery of long term returns to shareholders (Anglo American 2012I). Employing the best people is vital to the success of the company and also to achieving their main goal of becoming the leading global mining company. How effectively Anglo American operates depends on the people they employ which in turn contributes to the reputation they have with investors, partners and potential employees (Anglo American 2012I).

To attract the best employees to the company, Anglo American; create a safe work place for all, have a clear strategy for success, offer stimulating work, are organised for effectiveness and efficiency and support employees in their career development (Anglo American 2012I). Not only does this strengthen the company, as employees have the help to progress and be motivated to progress and become the best employees, but it also offers opportunities for Anglo American to be the employer of choice.

Although Anglo American has quite strong strategies in place, they should be aware of the external factors which are constantly changing that could affect these strategies or future strategies. Due to the many countries that Anglo American operates in, they need to constantly monitor each country to ensure they are aware of anything that could affect them, for example, a change in government may have a drastic effect on the way they operate in

that country. This could be managed by strong internal controls and contingency plans to react to any change as quickly as possible.

The minimum wage rate for each country is something that also needs to be monitored and adhered to as they differ dramatically between the countries Anglo American operate in. The minimum wage for Australia in 2011 was \$ 10.13 compared to Kenya which was \$ 0.61, which is a dramatic difference so is hard to monitor, but it is essential to ensure all the different countries regulations are adhered to (Wage indicator 2012). Governments have also started to impose super profit taxes, where mining royalties increased in Australia, Chile and South Africa.

Companies are charged super profit taxes on revenue but now new legislation has been introduced where mining companies are charged on profits as well as revenue. To offset this, there are also discovery bonuses that Anglo American can be rewarded for, for finding natural resources within a country (Deloitte 2010). Anglo American should carefully consider the environment and the areas affected by their actions. There is a constant concern from the public, as appreciation of the environment grows along with the awareness of the harmful effects that mining can have on their surroundings (Australian Bureau of Statistics 2006).

Activities at ground level constantly have an impact on the surrounding area, as bore holes, access tracks and sometimes even helipads are required. If the areas affected are left un-rehabilitated, this can have a long term effect on the environment (Australian Bureau of Statistics 2006). Anglo American has a strategy in place that is recognised internationally, and assists any mine-closure planning. It focuses on the provision for finance necessary and

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rehabilitation " for long term sustainability through addressing complex socio-economic, physical and bio-physical challenges" (Anglo American 2012e).

Stakeholder relations are constantly upheld throughout any project that Anglo American carries out; this ensures they have constant feedback from the community, government bodies and any other stakeholders affected by their actions. Mining is always going to affect the environment and the local communities surrounding each project, but Anglo American has strong strategies in place to deal and cope with these affects to the best of their ability. It is important for Anglo American to value the importance of society.

Employees, their communities, and the population of host countries are all part of the society that Anglo American should embrace. " Every year Anglo American spend a percentage of their pre-tax profit on social investment projects and spend time working with communities" (Anglo American 2012j). In 2011, Anglo American increased their Corporate Social Investment by 15.8% to \$128.6 million. The Anglo American Group Foundation is their own venture that operates globally, offering grants to countries where projects are carried out (Anglo American 2012j).

Education is a huge social aspect where grant funding is used; assisting the development of maths, science and literacy as well as higher education and ensuring teachers are of a good quality. Health is also considered an important aspect on which to focus grant distribution, and Anglo American have a holistic approach when it comes to HIV/AIDS as not only do they supply internal counselling and testing but have also donated \$4 million to external HIV/AIDS projects (Anglo American 2012j).

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Anglo American has outstanding generosity and strategies in place when it comes to the society and has strong and thorough planning for any operation carried out to improve their relations with stakeholders. However " community projects require creative marketing strategies and comprehensive business plans, and an external project consultant could be useful here" (Engineering and Mining Journal 2012), to eliminate any bias, and to make society relations a major variable for any decisions made.

A large proportion of Anglo Americans workforce and mining is carried out in Africa " with nearly 1 billion people, Africa accounts for over a sixth of the world's population, but generates only 4% of global electricity" (Salaam 2007). Anglo American need a lot of electricity to carry out day to day activities and with the strain of electricity available throughout Africa it was essential for Anglo American to find an alternative energy source due their large consumption of 102. 9 million gigajoules in 2011 (Anglo American 2011).

In order for this level of energy to be available to them Anglo American have constructed five platinum based fuel cells which not only provides them with the necessary power for productivity but also " provided a significant economic and environmental development opportunity for South Africa by facilitating the provision of clean, reliable and cost effective power" (Anglo American 2012g). Anglo American consider technology and carbon reduction to be linked very closely and aim to have technology capable of running cost efficient, carbon neutral mines in 20 years (Anglo American 2012g).

Although Anglo American have the aim in place to achieve this, a strategic report on how they aim to achieve it and a breakdown of steps, costs and <https://assignbuster.com/anglo-american-dissatation/>

research would be useful. It would not only be useful to the company and employees carrying out the strategy, but also for stakeholders, especially the African population and government. It may even be possible for the project to be supported, and maybe even assisted by the local Government to push forward the time scale. Being a multi-national company, Anglo American has to comply with many laws from each country they mine in.

As well as these, some countries have individual legislation, which varies in different areas of the countries, USA & Canada (Garcia 2008). These can include environmental laws, e. g. water pollution, national laws e. g. minimum wages and safety laws. An example being that Anglo American has developed a safety and sustainable development committee in order to comply with South African safety law. This states that a company in South Africa must provide a committee with ambitions to “ initiate, develop, promote, maintain and review measures to ensure health and safety” (Boshoff 2012).

By having a safety committee they can try to minimise the lost time fatality rate and try to achieve their overall goal of zero fatalities within any Anglo American workplace. Anglo American has a sound collection of strategies in place to deal with external factors but it is also important for that they have strategies in place for internal factors. Figure 5 shows a value chain of Anglo American and allows for the internal factors that Anglo American could be affected by to be recognised. | Infrastructure: A multinational conglomerate with joint projects and subsidiaries.

De Beers being the largest subsidiary of | | many. Extremely high capital investment, with lots of projects. Primary listing on LSE, secondary on JSE. | | <https://assignbuster.com/anglo-american-dissatation/>

Human Resources: Diversity among workforce across all levels of employment. Committed to International Labour Organisation. | | Development of talent remains a key priority. | | Technology: Research and develop their own technology. Link development of new technology with the ability for carbon | | reduction. | | Procurement: have a local procurement policy engaging local businesses in supply chain.

Expect all suppliers to operate | | safely, sustainably and responsibly. Prefer suppliers who are engaged in China sourcing. | | Inbound Logistics: | Operations: Diamond, | Outbound Logistics: | Marketing and Sales: De Beers| Service: To maintain | | partner with Chinese | nickel, copper, iron | 40% of worlds platinum| have their own diamond | the sites. Mines need | | suppliers to operate and | ore, thermal coal and | output. Own 85% of De | auction and shops. 70% of | to be maintained by | | maintain complex products| platinum mining. Beers, the global | platinum consum