Cost-conscious major miners look to agility of junior explorers

LONDON – Tight budgets and nervous investors have convinced major miners that a cheap, timely way to ensure a strong pipeline of quality assets is to team up with junior, more nimble exploration firms.

Miners have slashed costs by delaying projects, sold assets and cut exploration budgets to free up cash to pay down debt, much of it acquired during and after the commodity price supercycle, which started in 2002.

Now, with prices of commodities such as copper and iron ore at multiyear lows, capital expenditure is expected to remain subdued and investors reluctant to sanction large acquisitions or projects.

One option is to buy profitable, low-cost so-called "tier 1" good quality mines, but few are up for sale. A viable alternative is to own mines with small explorers.

"Partnering allows us to complement our strengths in big data, technology and research alliances with what juniors can bring ideas and projects, boots on the ground and acreage," Stephen McIntosh, Rio Tinto's head of growth and innovation, said. "It will help all of us to accelerate and enhance the discovery of Tier 1 assets."

Rio's 2016 capex budget is $150-million, down 74% from last year, most of that will be aimed at copper.

A favourite with miners and investors, the copper market faces shortages from 2018 onwards.

As a result, copper prices are expected to recover from current levels around $4 700, which though up from six and a half year lows of $4 318 in January are far from record highs above $10 000 a tonne hit in February 2011.

With that in the background, Rio last year agreed exploration deals with Canada's Avala Resources on a gold-copper project in Serbia and signed a similar deal with Reservoir Minerals on its Timok Magmatic Complex in Serbia.

Generally under such deals, the larger miners invest capital to pay for mining equipment and the skills needed to develop the mineral site that is mainly run by the smaller exploring company.

"Investing in juniors allows the majors to spread risk," said Clive Burstow, fund manager at Baring Asset Management, adding that junior partners often bring local expertise.

BHP Billiton cut its 2016 capital and exploration budget 42% to $6.4-billion. But it has earmarked about $60-million for green field exploration for 2016-2018, BHP geoscientist Laura Tyler said in June.

Tyler said BHP sought "projects with junior explorers to derisk projects and secure future options".

BHP agreed earlier this year to fund copper exploration by Aston Bay Holdings, which could see it owning a majority stake in the firm.

Aston Bay Chief Executive Benjamin Cox told Reuters his company only bought mineral-rich sites if the deposits were large enough to attract a large mining company to partner with.

"We have a high belief that the partnership model is good. A major mining company will test a bigger set of outcomes than a junior company can afford to test. It fast tracks the process."

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