

Major miners fuel a rising demand for streaming deals

VANCOUVER — As traditional forms of equity and debt finance become harder to obtain for mining companies, there's been a rise in stream agreements, which offer miners access to cash for a percent of future by-product metal production. And according to analysts at Scotia Capital, there could be at least a few more high-profile streaming deals on the horizon as large, diversified miners look to improve balance sheets in the face of tough commodity markets.

Streaming deals tend to be best suited for bulk-tonnage, base metal mines with precious metal by-product credits that a growing group of financiers will buy for big money. Major players on the buying side of the deal include Franco-Nevada (TSX: FNV; NYSE: FNV), Silver Wheaton (TSX: SLW; NYSE: SLW) and Royal Gold (TSX: RGL; NASDAQ: RGLD).

The lack of equity dilution and minimal direct burdens on balance sheets are boosting these agreements' popularity, as large mining companies with diverse portfolios look to raise capital amidst depressed share prices and rising debt loads.

The most recent top executive to tout the benefits of stream deals was Glencore's (LSE: GLEN) Ivan Glasenberg on a Dec. 10 earnings conference call. The Swiss miner plans to reduce its net debt from $30 billion at press time to between $18 billion and $19 billion by the end of 2016.

Glencore has already completed a US$900-million deal with Silver Wheaton on its 33.75% stake of the Antamina copper-zinc mine in Peru.

Glencore says "additional streaming deals are advancing for agreement," by the end of 2015.

BMO Capital Markets analyst David Gagliano speculated in a research report that Glencore's

Antapaccay project — a brownfield expansion of the Tintaya copper mine in southern Peru — may be the most likely candidate for a deal. BMO Research estimates that attributable precious metal production at the operation could hold a net present value of just over $1 billion at a 10% discount rate.

Meanwhile, Scotia Capital noted that Teck Resources (TSX: TCK.B: NYSE: TCK) president and CEO Don Lindsay said at a conference in December that it could sell a stream at its large Red Dog zinc-lead mine in northwest Alaska.

Teck reached an agreement with Franco-Nevada in early October on its 22.5% stake in Antamina, wherein it sold a silver stream for US$610 million.

Franco CEO David Harquail expects Antamina's reserves will grow substantially over time, and that an underground expansion of the mine could extend its life "beyond 40 years." Last year the mine produced 12 million oz. silver.

But the list of big names in the mining community lining up at the streaming kiosk doesn't stop there. On Dec. 8, London-based mega miner Anglo American (LSE: AAL; US-OTC: NGLOY) revealed massive job cuts, and reported it could trim up to "60% of its asset base." The company also announced it looked to sell precious-metal streams instead of carrying out equity financing while its share price plumbs historic lows.

U.S. copper giant Freeport-McMoRan (NYSE: FCX) may also be on the lookout for streaming deals after announcing in early December that it would cut another $1 billion in capital spending over the next two years, and suspend a 20¢-per-share dividend valued at US$240 million per year.

When all the potential new streams are added up, it looks like a major opportunity for buyers. With so many deals already on the books, however, a major issue is outstanding capital capacity among streaming firms.

Silver Wheaton chief financial officer Gary Brown, speaking at Scotiabank's Annual Mining

Conference, estimates that “there is US$2 billion of total capacity [among major streaming companies] for an estimated US$4-billion worth of tangible opportunities.”

Scotia Capital analysts say that “streaming companies, much like their potential private equity competition, will look for higher internal rates of return in future transactions — likely in the range of 7–9%, versus the 4–5% we’ve seen in the past several months.”

Franco-Nevada CEO Harquail said in The Northern Miner’s recent roundtable discussion, entitled “New Frontiers in Mining Finance,” that streaming represents a “more permanent and patient capital” that understands what it takes for companies to advance a project through to production. Silver Wheaton president and CEO Randy Smallwood added that streaming has finally “broken through over the last couple of years,” due to a rising need among miners.

Source: **NorthernMiner.com** December 16, 2015.