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Ninety One

Investing for a world of change

Miners balancing growth ambitions and returns

POSTCARD



Many mining companies are earning record profits and eyeing growth. This can be a dangerous time: overexpansion can weaken margins and leave businesses exposed in a downturn. Fortunately, our conversations at recent industry get-togethers suggest that many miners are striking a sensible balance between growth and shareholder returns.

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George and Dawid are portfolio managers[1] in Ninety One's Natural Resources team (along with Paul Gooden), which invests across energy, precious metals, base metals & bulks, and agriculture. George covers all aspects of metals and mining supply and demand, including the impact of AI, renewable energy and electric vehicles on metals demand. As well as metals and mining, Dawid covers agriculture and soft commodities for the Natural Resources team.

Miners and their customers have been gathering at industry conferences to negotiate terms and volumes for the coming year. Over the past month we have met dozens of them: in **Colorado** at the Americas Mining Forum (formerly the Denver Gold Forum), and in **London** at the FT Metals & Mining Summit and London Metal Exchange (LME) Week.

Though the world feels full of risks – including geopolitics, AI and climate change – miners are enjoying record margins and profitability. While maintaining a focus on shareholder returns, many mining companies have been outlining growth strategies. The following are our key takeaways from last month's conversations.

Gold growth plans look sensible

Gold broke above US$4,000/oz for the first time on 8 October last year.[2] Over the subsequent 12 months, gold producers enjoyed an average price of US$4,400, leading to margins of over 100% for many of them. As a result, gold-company balance sheets are generally in rude health.

Many gold companies have increased their reserve price (the assumed gold price used to calculate the value of their economically viable deposits). This has led to reserve and resource ounce increases, as cut-off grades can be lowered and mining plans recalibrated when assumed prices rise. The risk is that lower grades will be mined, with costs increasing and short-term production remaining flat to down as mine life is extended. The balancing act between maintaining margins and expanding output is a perennial one for miners, but optimisation strategies have improved vastly over recent decades, helping companies manage the trade-off.

1. For more information on the investment team, please see the Important information section.
2. All commodity prices in this document were sourced from Bloomberg and are as at end-October 2026 unless otherwise stated.

Because of this, as well as much more disciplined capital allocation in the mining sector overall, miners' plans are better balanced between growth and shareholder returns than in the past. Companies are keen to show investors that they can grow volumes as well as earnings and shareholder returns. At the same time, the necessary skills to expand production are in short supply and permitting timelines are lengthy in many countries. Consequently, projects are being approved in a more conservative way than in the previous cycle, when growth was the sole focus.

Operating costs and capital expenditure remain concerns

There are challenges, however, not least costs. Higher gold prices automatically result in higher costs, partly because royalties and taxes are based on prices and/or profits. In some countries, particularly in West Africa, royalty rates have been increasing as well, which is an additional expense.

Of more concern has been the rise in diesel prices, which has a greater impact on open-pit miners and those with longer haulage distances. The good news is that, over recent years, many miners have moved from diesel to gas and renewables. Diesel now makes up a much smaller percentage of overall costs than it used to, and for many miners is less than 5%.

Labour is another challenge as skilled workers are in short supply in many regions, with jumbo operators, electricians and maintenance crews cited as the tightest parts of the jobs market. The worry is not just that wages will rise: availability is of equal concern, with companies looking to expand training programmes and extend share-incentive schemes down through the workforce to retain talent.

With more new projects now in planning and starting up, capital costs are also facing inflation as competition for equipment and project staff increases. Companies with in-house skills and build experience have an advantage, as do those that have already completed builds.

Nevertheless, everyone has more room for error. High margins and strong balance sheets mean operating cost increases and/or capital-cost overruns can be absorbed more easily. Consequently, we think the biggest risk for most gold-mining stocks today is the company missing production targets, which would have worse consequences than a miss on costs.

Growth back on the agenda, but will take time

While growth was a major topic of conversation in Denver, overall gold-production volumes are forecast to be approximately flat until 2029/30 before output rises sharply. This is expected: the rise in the gold price has incentivised many new projects, but it takes time to gain permits and for projects to become operational. Consequently, within the gold mining sector, companies with growth prior to 2029 stand out, as do companies with strong track records of delivering projects.

Consolidation remains an option

With growth taking time and near-term production looking tight, it is no surprise that M&A (mergers and acquisitions) remains a hot topic. Gold Fields' unsolicited bid for Northern Star in September highlights why.[3] Northern Star offers its suitor immediate growth as it ramps up a new mill at Kalgoorlie Consolidated Gold Mines (KCGM) in Western Australia, synergies through combining workforces in Australia where labour availability can be a challenge, and growth options via the Hemi project in the Pilbara region.

Of course, the gold price will play an important part in determining whether any acquisition is ultimately successful. But for many companies, scale and diversification will be important motivators for M&A.

Copper miners face similar challenges

Copper is trading near record levels at over US$14,400/tonne and charges for smelting concentrates[4] have turned negative, at around -US$340/dry metric tonne in spot markets. In other words, smelters are paying miners a premium on top of the metal price to obtain their concentrates, which is positively impacting copper miners' margins this year.

As with gold companies in Denver, cost pressures, growth and capital discipline were common themes in our conversations with miners in London. But unlike for gold, supply/demand fundamentals for copper were hotly debated. High prices and weak construction activity in China are encouraging the bears, while the bulls point to the imbalance in available inventories and structural demand growth from datacentres and the plants to power them.

3. For more information on specific portfolio names, please see the Important information section. Source: Financial Times, 28 September 2026, 'Australia's biggest gold miner rejects $27bn takeover bid'.
4. What smelters charge to treat and refine the copper concentrates produced by many mines.

Copper is piling up in US warehouses in expectation of a tariff being imposed, while European and Asian inventories are very low and premia for delivery are high. Meanwhile, supply disruptions have persisted as skill shortages, under-investment and the price incentive to push utilisation rates hard have led to unplanned outages. This has been compounded by El Niño causing winter storms in the Chilean Andes and disrupting production at a number of mines.

Overall, we came away with the view that copper markets remain precarious, but that tightness could continue for a while. Company valuations have come down in recent months as markets de-risk and production disruptions negatively impact company results. We have moved to a fairly neutral view on copper equities following our underweight earlier this year as we feel there are risks on both sides.[5]

Aluminium sentiment very bearish

Given the disruption to aluminium smelters in the Middle East, supply looked challenged into 2027. However, a much faster recovery than expected in the Gulf and an acceleration of the build-out of capacity in Indonesia have brought forward the risk of oversupply in the aluminium market to the next six months. At the same time, aluminium demand growth is being held back by weak construction and state infrastructure markets in China, a major source of aluminium demand. Consequently, the market has quickly turned bearish: aluminium prices have fallen from a peak of US$3,750/tonne in May to just above US$3,000/tonne. Many expect prices to fall further next year, though there is wariness over the short term as, despite the looming surpluses, Chinese inventories are low and the spot market remains tight.

The increase in smelter capacity on the horizon promises to tighten alumina markets to some extent. China is the marginal alumina producer and will bring on production if prices rise much above US$400/tonne for a sustained period. But volatility is possible.

5. Opinions based on current market conditions; subject to change without notice and without any obligation to update.

Iron ore tests the cost curve

More so than aluminium and copper, iron ore is heavily reliant on Chinese construction. Weakness in China has led to iron ore prices sinking this year. Quoted iron ore prices include freight rates, which have jumped with higher diesel costs, so miners are actually receiving much lower prices. China Mineral Resources Group (CMRG), the buying group formed by the Chinese government in 2022, is using the softer market to pressure major iron ore producers to offer a discount. It reached a deal with BHP on iron ore sales contracts earlier this year after a stand-off of several months.[6]

In short, iron ore miners' margins have been squeezed hard this year, particularly in Brazil where freight rates to China are >US$40/tonne of ore. There have already been some mine closures and more are likely if current market dynamics persist. This will test the market's view that iron ore prices should bottom at about US$85-90/tonne due to cost-curve support.

Mining equities offer good cashflows and options on growth

Overall, despite the uncertainty in global markets, most mining companies are generating strong cashflows. In our view, mining companies' strong balance sheets mean this part of the equity market can be viewed as relatively defensive if global growth starts to falter, and has good upside potential if growth accelerates. While we prefer energy and precious metals equities in this environment,[7] we believe the diversified miners are beginning to look more attractive as valuations retrace.

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Specific risks. Geographic/Sector: Emerging market: These markets carry a higher risk of financial loss than more developed markets as they may have less developed legal, political, economic or other systems.

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6. Source: Mining Weekly, 23 April 2026, 'BHP adopts new Chinese iron-ore price index in deal to end dispute, sources say'.
7. This is not a buy, sell or hold recommendation for any particular security. The views expressed are subjective and may change.

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