Results analysis: BlackRock World Mining

BRWM: Green demand is supporting commodity prices while China is weak...

Update
19 March 2024

- **BlackRock World Mining delivered a NAV total return of -6.2% over the year to 31/12/2023, and a share price total return of -10.4%. This compares to a 2.4% total return for the reference index, the MSCI ACWI Metals & Mining 30% Buffer 10/40 Index.**

- **This is only the second time in nine years the trust has underperformed the reference index. A number of unrelated factors contributed: First Quantum Minerals saw its largest asset closed for political reasons, Chalice Mining underperformed for stock specific reasons, and weak lithium prices affected a number of holdings. Mid-sized copper miners were also weak.**

- **The dividend policy is to pay out substantially all of the year's available income, which means dividends should be expected to vary from year to year. In FY 2023, the revenue return per share was 33.95p, a 16.6% decrease on 2022. Lower commodity prices, higher all in costs and a weakening US Dollar (as many commodity company dividends are paid in US Dollars) contributed.**

- **Three quarterly interim dividends of 5.50p per share were paid during the year, and the board is proposing a final dividend payment of 17.00p per share which would make a total of 33.50p per share, down 16.3% on the previous financial year but still representing a healthy 5.7% yield.**

- **During the first months of the year, BRWM's shares traded at a premium to NAV, and the board reissued 2.4m shares from treasury at an average 1.4% premium. During the year, the shares moved to a discount to NAV, and ended it on a 3.3% discount. Since then, the discount has widened to 5.4%. The board has not bought back shares.**

- **Chairman of the board David Cheyne said: "Inflationary pressures are easing in the US and UK and inflation is expected to return towards target in 2024. Remaining COVID-19 pandemic era supply disruptions are also fading and the Chinese government has moved forward with a series of stimulus measures to turn round its ailing economy which should support commodity demand. The energy transition to a low carbon economy is also set to increase demand for materials in the supply chain for low carbon technologies, including copper, steel and lithium, which is a positive tailwind for selective parts of the mining sector."**

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Kepler View

Mining was one of the best-performing sectors in 2022, but fell out of favour in 2023. Yet **BlackRock World Mining's (BRWM)** managers, Evy Hambro and Olivia Markham, argue that the supply/demand dynamics of the sector remain strong. They note that order books for renewable infrastructure are full, requiring huge amounts of steel to complete. Meanwhile electric vehicle sales broke records over the past year, with EVs requiring huge amounts of copper and lithium. Inventories declined over 2023, while there have been a number of mine closures for political reasons which reduces supply. However, it seems that high interest rates have diminished interest in the riskier areas of the market, leading to mining shares underperforming the market and BRWM's shares moving to a discount. We think there is therefore a potentially positive setup emerging for when interest rate cuts do finally begin.

Weakness in the Chinese economy, specifically the property sector, has been a headwind. However, it has been less significant than might have been expected, as "green" demand is increasingly important to commodity prices. Notably copper demand in China was up 12% over the year, likely reflecting heavy investment in renewables, EVs and the power grid. The copper price was flat over the year. It remains a key area of conviction in BRWM's portfolio, with Evy and Olivia pointing to the strong long-term support from the commodity's role in the energy transition as well as short-term supply disruption, which they think creates the environment for higher prices in 2024.

Income received fell during 2023, with one reason being the increase in buybacks by mining company management teams. This reflects the value they see in their shares, and also the increasingly high hurdle rates new mines need for executives to invest. This reflects good capital discipline in the sector as well as a recognition that the green transition adds costs to production that need higher prices. Evy and Olivia think dividends might come under further pressure in 2024 while commodity prices are relatively weak, although they note iron ore pricing has been much stronger than expected and this is a critical source of dividends. BRWM has been shifted to have higher weightings in the large cap diversified miners that generate a lot of iron ore, and this could be positive for the dividend relative to the market in 2024.

Returns were clearly disappointing in the 2023 financial year, but we think the underlying story remains compelling. Demand from energy transition sources was more significant to pricing in 2023 than was forecast, with political commitments as strong as ever. Management teams are increasingly focussed on decarbonizing their own businesses, which itself could lead to opportunities as the strong ESG-performers have a broader potential investor base, which Evy and Olivia describe as "brown-to-green". Recession in the developed world and further weakness in China would clearly be negatives for the sector, but it looks more resilient than past cycles, with a secular driver of demand (green energy) which could be a source of stimulus spending should we indeed enter recession. BRWM is a highly flexible proposition which allows Evy and Olivia to tactically shift their exposure much more quickly than an executive of a diversified mining company, and we think it is an attractive way to take exposure to a sector with strong long-term prospects. Notably the shares have often traded on a premium when sentiment is strong towards the sector, and so the current discount is particularly attractive in our view.

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