Why Anglo is forced to cut 85 000 jobs

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Johannesburg - Even for a company that once had the global monopoly on diamond production during almost a century of all but constant expansion, the collapse in commodities prices is proving too much.

Anglo American [JSE:AGL], a conglomerate spanning everything from brewing, publishing and gold mining during its peak in the early 1990s, will shrink beyond recognition after CEO Mark Cutifani on Tuesday announced an eye-watering package of asset sales, mine closures and job cuts. Among the potential casualties is Minas Rio, a Brazilian iron ore mine where spiralling costs and collapsing prices turned a $14bn project into the epitome of the company's predicament.

"Minas Rio is the high water mark of their mistakes," said Jeremy Wrathall, head of global natural resources at Investec. "It was a series of strategic errors, the collective madness of the super cycle where everyone got it wrong."

Like banks before the financial crisis or energy companies before the collapse of oil prices, Anglo American is the classic tale of over-extending during the good times only to be left with too much debt and too little money when markets take a dive.

Assets must deliver - or else
Anglo American will eventually employ 50 000 people, 85 000 fewer than now, Cutifani said. It will control as maximum of 25 assets, down from 55 today. Any mines that don't make money will be put up for sale or simply shut.

The announcement comes after Lonmin **[JSE:LON]**, another UK-based mining company focused on Africa, last month was forced to tap shareholders to stave off collapse. Its businesses spanned gold mining, hotels, textiles and newspapers in the 1980s.
Anglo American's assets "must deliver cash through the cycle," Cutifani, an Australian who has been in the top job at the company since 2013, told investors on Tuesday. "If not, they will not be in the portfolio. It's as simple as that."

At the company's financial peak in 2007, when the price of platinum and nickel were near records, annual profit was $7.3bn and its stock market value exceeded $80bn. Analysts forecast Anglo American will lose $2.8bn for this year; Cutifani told shareholders there won't be a dividend until at least 2017. The company has a stock market value now of $6.3bn and debt of $11.9bn.

"This looks likes the first signs of capitulation perhaps in mining," Paul Gait, a Sanford C Bernstein analyst in London, told Bloomberg Television. "Anglo used to be this big diversified South African conglomerate. It's now selling 60% of its assets."

Founded in 1917 by entrepreneur and philanthropist Ernest Oppenheimer, Anglo American was built on the back of South Africa's giant gold mines. Moving into diamonds with control of De Beers in 1926 - it owns 85% of the company after selling it and then buying it back - and then adding platinum and coal, Anglo American grew rich and powerful through much of the 20th century.

Under Ernest's son, Harry, the company broadened its horizons. The company bought Hudson Bay Mining in Canada in 1961 and went on to expand into steelmaking, timber and pulp and then copper in South America.

Minas Rio
More recently, the company sought to expand into iron ore to join the companies feeding China's seemingly insatiable need for steel.

Minas Rio was conceived by Cutifani's predecessor during that bull run. It cost $5.1bn to buy the project and $9bn to build it. The price of iron ore, along with that of coal, diamonds, gold and most other things extracted from the ground, then sank.

Cutifani said that it will struggle to make it into his list of "tier one'' mines, though the company will give it a chance to improve performance before a final decision on its future is made.

"How the mighty have fallen," said Investec banker Wrathall, who worked underground in South African gold mines in the 1990s. "It's shocking what has happened to such a great company."