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# Capital allocation at Anglo American.

*Daniel's Perspective*

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# Capital allocation at Anglo American.

Anglo American bought back US$12.2bn of their overvalued shares from 2006-2008 into the peak of that commodity cycle. It also acquired the massive Minas Rio iron ore project in 2007 for US$5.5bn and sunk another US$8.8bn into it at a time when build costs were high. Minas Rio was still loss-making in 2018.

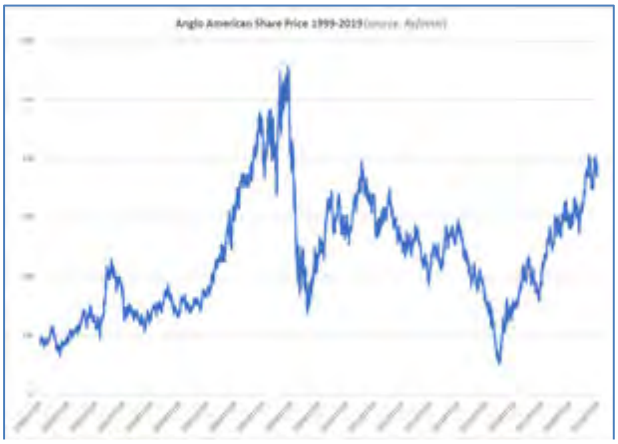
Anglo entered the troughs of the commodity cycle with too much debt in 2008/9 and again in 2015/2016. It was rumoured to have come close to losing its independence as a company; quite understandably. To his credit, Mr Mark Cutifani, CEO since 2013, responded to the company's US$3bn loss in 2015 by aggressively restructuring, cutting 53,000 jobs and suspending the dividend – the ultimate throw-in-the-towel move for short-term oriented equity investors. This probably contributed to the share price plummeting to very low levels.

Because of the debt, three important mechanisms for creating significant long-term per share intrinsic business value during the trough of the cycle became unavailable; share buybacks, acquisitions of competitors and orebody development when costs were low.

Fast forward to 2019. Commodity prices have recovered, and Anglo's operations are generating above normal profit margins. The share price went from R60 in 2016 to R361.

But, incredibly, here we go again; Anglo has just announced a US$1bn share buyback.

A picture can paint a thousand words, so I leave you with an image of the Anglo American share price over the past 20 years. Just imagine the per share value creation possibilities if they had been able to act counter-cyclically in 2009 and again in 2016...

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