With commodities representing the engine of growth in Latin America, the past few years have proved particularly challenging for the industry and many companies in the region. Faced with a downturn in prices and demand which started in 2012, treasurers and finance managers have responded strongly with concerted efforts to maximize operational efficiency and working capital, including rebalancing their portfolio of assets and now restructuring their balance sheets.

With prices recovering globally and companies becoming financially stronger, the priorities for treasurers and finance managers are evolving from cost to growth. However, companies are now digging in deeper to drive growth. Whereas 80% of operating cash flow of mining companies went into funding capex in the industry¹, now the focus is much more on achieving growth through operational efficiencies and productivity. A leading mining company in Brazil, for example, has reduced over 30% of costs and 80% of expenses since 2012. Financial discipline is helping drive growth and preparing companies for future volatility.

How companies are reshaping

Peru, for example, as the world’s second largest producer of silver and the third largest producer of copper, with metals and minerals accounting for almost 60 percent of total exports, is highly vulnerable

to fluctuations in world prices. Many corporations operating in the country, such as mining companies, have seen a shift from being cash-rich to a far greater focus on maximizing efficiency and working capital ratios. Rossana Novoa, Treasury Manager of leading precious metals producer Hochschild plc notes,

“Our cash flow dynamics have changed fundamentally over the past three to four years: while we used to have large surplus cash balances, for example, at one point we resorted to debt to fund business expansion activities. Even though today we are starting to generate extra cash again, we continue to focus on cost and efficiency across our operations, and we have successfully centralized our treasury team in Lima, Peru, with a view to improving automation and security, enhancing visibility and control over cash, and building long-term relationships with strategic counterparties.”

Working capital has become a far higher priority, as Rosanna continues,

“When you have a lot of cash, payment terms are not important, but when the cash situation changes, you need to work closely with vendors to adapt to changing conditions, and explore working capital financing opportunities, such as factoring. While this approach has been important in enabling the business to weather the storm, we are also in a better position to leverage new opportunities as conditions improve, and equipped to manage future downturns.”

Working capital financing has also been an important strategy for other global mining corporations. Another key mining company comments,

“Raw material suppliers typically need to receive funds either in advance or on delivery; however, we receive funds only at the end of the production cycle, which creates a working capital mismatch. We have therefore set up a supply chain finance program with Citi that allows us to extend payment terms whilst enabling suppliers to obtain early payment based on these receivables from the bank to finance their own business.”

Positioning for growth

As prices start to rise, industry confidence is returning, not only amongst commodity producers, but other corporations operating in Latin America too in anticipation of improving economic conditions. The ‘lean years’ have positioned many of these companies well, and maintaining a proactive focus on working capital and operational discipline will remain important. Companies such as Hochschild are looking to pay down debt, and restructure their balance sheets by accessing the international bond markets and export credit agency (ECA) financing. Mergers and acquisitions are also likely to pick up further, funded with international debt, and companies are reassessing their dividend and capex policies. Rosanna Novoa, Hochschild explains,
As commodity prices increase, our focus is now on reducing debt, and financing growth. We have prioritized developing brownfield operations which have the potential deliver growth at a lower cost than building new capacity until now, but there is huge opportunity for exploration in countries such as Peru where a large proportion of the country’s potential remains untapped.

In many cases too, treasurers are revisiting their scenario planning in the light of a new US administration and ongoing political volatility regionally, and ensuring that they can adapt their policies and operations to potential changes in hedging and repatriation strategies.

Strategic partnerships

Citi has relationships with corporations across the 23 countries that comprise our Latin American footprint, including most mining companies. As a result, with unrivalled regional coverage and a comprehensive portfolio of corporate banking solutions, the bank is ideally positioned as a strategic partner to support clients in their pursuit of growth, whilst continuing to support their efforts to enhance operational and working capital efficiency. Maria Eugenia Gonzalez, Citi Peru Corporate and Investment Banking Head summarizes some of the priorities she sees amongst her clients for the months ahead,

“One of the most important components of our client relationships is to support them in managing their environmental strategy, which is essential for capex approval, obtaining external financing and building community relationships. A growing number of companies are seeking to access international markets, with leading corporations already issuing bonds and establishing ECA facilities to fund capex.”

It is not only corporations that have an existing presence in the region that are exploring opportunities for growth. With brighter economic prospects ahead, and a commitment by governments to attract foreign investment, new players in the region will also be seeking Citi’s expertise, coverage and breadth of solutions.

Harnessing experience

Latin America is experiencing a renewal of growth and international interest. Leading corporations in the region, such as Hochschild, have focused relentlessly in improving working capital, implementing new initiatives to reduce cost and to release internal sources of funding to reinstate and maintain capital efficiency. As a result, these companies are emerging financially stronger and are now much fitter to access traditional sources of funding, including debt capital markets, allowing them to continue restructuring their balance sheets.

Citi has been a trusted advisor for these companies, supporting them towards the path of treasury centralization, underpinned by digitization, next generation technology and security controls. Citi’s industry experience, strong regional footprint, unique global platform and teams on the ground continue to partner up to help them build best-in-class treasuries.

While there will continue to be challenges and uncertainty ahead, better financial flexibility, working capital levers, scalable technology and improved controls are enabling treasurers to adapt to changing conditions more quickly. They are playing a greater role in redefining growth based on core assets and financial solutions which maximize operational efficiency and profitability.