

Glencore PLC

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Glencore is currently deeply, and perhaps rightly, discounted by the market, given corruption concerns, succession issues and exposure to coal

Why is it that the share price of Glencore PLC (LON:GLEN) is lagging behind the other major miners?

The effect is clear enough. Allowing for the steep declines brought about by the coronavirus and the subsequent partial recoveries, Anglo American (LON:AAL) is down by 13.7% over the past six months, BHP (LON:BHP) by just over 7.5%, and Rio Tinto (LON:RIO) by a remarkably modest 0.7%.

All to the good, since the world is beginning to pull out of the crisis, many commodities are coming back into demand, while supply disruptions continue to put upward pressure on selling prices.

Glencore's shares, though, have been much weaker, down more than 26% over the past six months, and currently trading at around 172p.

That's a significant underperformance, much of which can be attributed Glencore's lack of iron ore production. Iron ore is riding high, and is helping to bolster the other companies in a way that doesn't apply to Glencore. But it's also tempting to put a part of the malaise down to ongoing legal worries in regard to operations in the Democratic Republic of Congo.

The DRC is famously one of the most corrupt jurisdictions in the world to operate in, but is also one of the most richly endowed of the African nations in terms of copper, cobalt and gold in particular.

Of all the world's significant miners, Glencore has the biggest exposure to the DRC, where it has in the past rubbed shoulders with notorious types like Dan Gertler, a man who has been on the wrong side of investigations more than once.

The latest legal woes for Glencore strike closer to home, though, and have been filed in Switzerland, where it's based. The precise nature of the charges seem somewhat nebulous: the company is charged by the Swiss attorney general that it failed to put measures in place to prevent corruption.

Such is the nature of modern regulation that you can be charged for not doing things, as well as for doing them. But Glencore itself has, in the past, suggested there may be some substance to charges such as these, in the sense that local traders may well have been operating beyond their authority and outside of company policy.

What's perhaps more significant for those worried about fundamentals, though, is that Glencore's underperformance, though triggered by the coronavirus crisis, also follows a recent re-statement of a long-standing intent by chief executive Ivan Glasenberg that there will be management changes at the top level of the company.

Such changes may even include a changing of the guard at the very top. And if Glasenberg were to leave, it would

Price: 302.7

Market Cap: £40.42 billion

1 Year Share Price Graph



March 2020 September 2020 March 2021

Share Information

Code: GLEN

Listing: LSE

52 week High Low
310.55 2.44

Sector: Mining

Website: www.glencore.com

Company Synopsis:

Glencores is an Anglo-Swiss multinational commodity trading and mining company with headquarters in Baar, Switzerland, and a registered office in Saint Helier, Jersey. The current company was created through a merger of Glencore with Xstrata on 2 May 2013.

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certainly put a downer on investor sentiment. He is the public face of the company, and the man widely credited with bringing it up to a position where it trades in a peer group with the other major miners.

All things must pass, but Glasenberg's passing would certainly herald a new round of unease about the future.

Will he stay on to ride out the plethora of legal claims that are running simultaneously against the company? If he's sticking to form he will want to. The question is though, whether the legal claims will ever actually stop coming.

Or to put it another way, is it possible to operate in a country that is inherently corrupt without either tacitly endorsing that corruption or actively encouraging it? These are philosophical positions that the Swiss attorney general has already taken a view on.

Investors, it seems, are beginning to have their say too, although there is an alternative line of thinking which says that the company is becoming unfashionable because of its significant exposure to thermal coal production.

A recent deal with Tesla (NASDAQ:TSLA) may go some way towards dispelling that notion, and Glencore itself has been vocal about capping and then eventually reducing coal production. Still, the questions remain. It's been widely reported that the Tesla deal included all sorts of assurances about corruption and exploitation, and with the ongoing investigations by the Swiss, Americans and British any positive news is always likely to be met with headwinds.

Glencore does still have some supporters.

Broker Liberum rates Glencore a buy, setting a price target of 210p, and Rio, Anglo and BHP all as holds. However, it's worth remembering that Liberum was one of many major cheerleaders for Glencore when it listed in London a few years ago, at a much higher price than it's trading at now. Back then Liberum said Glencore was undervalued too.

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