Mining Journal

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Dual listing gains hard to find

Dual ASX-TSX listings by Australian miners are more likely to create two liquidity-constrained trading pools than open new doors to capital.

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5 December 2019

The fantasy outcome from a dual listing is an immediate large flow of capital from otherwise reluctant institutions. Even then, any short-term capital raising opportunities must be set against the longer-term costs of compliance and management inconvenience.

Beyond facilitating a one-off capital infusion, the first test of a sustainable dual listing is whether it can underpin a deepening liquidity pool to attract progressively more active and larger investors. For this, the proportion of stock traded in the second market needs to show a rising trend.

A second test for a dual listing is whether it attracts a more diverse shareholder base driven by different investment styles. Statistically uncorrelated turnover across the two markets is evidence of that happening.

Euro Manganese offers an unusual test of the relative willingness of investors in the two markets to embrace a single investment proposition. The company raised C$8.6 million (A$9.2 million; US$6.5 million), split 71/29 between Australia and Canada in an initial offering and simultaneous dual listing on the ASX and TSX-V in October 2018.

The funds were earmarked for a tailings processing project in the Czech Republic. Neither Australian nor Canadian investors would have had a geographical preference for the investment. That said, the dozen or so directors and executives of the company had strong Canada-market pedigrees and minimal prior involvement with Australian investors.

By the end of November this year, the company's market value had shed 40%, liquidity had declined in both markets, but the Australia-listed shares had risen from 15.6% to 43.5% of the company's total shares outstanding. Since listing, market turnover has split nearly 60/40 in favour of the ASX.

A weak correlation in trading volumes suggests differently motivated investors in the two markets and relatively poor Canadian liquidity conditions. The last time TSX-V trading occurred on all five days in a week was in March.

> **Orocobre does not appear to have achieved a significant advantage from its dual listing**

Cardinal Resources opted for a Toronto exchange presence in mid 2017 as it sought to develop its Namdini gold project in Ghana. The company had been cultivating an investment following in North America since acquiring its West Africa gold interests in 2012, after an ASX listing a year earlier. At the time, the company disclosed that one third of its institutional shareholders hailed from North America.

Cardinal directors said the proposed dual listing "is driven by the strong and increasing levels of interest in Canada and North America". The new listing, they said, "will enhance the company's support by the North American and Australian investment communities".

The single listing to that point did not appear to have been an insuperable barrier to attracting support. Over the prior 18 months, the Cardinal share price had risen by 340%. The company boasted a market capitalisation as high as A$175 million.

For the TSX listing to have contributed to the wellbeing of the company, trading on the Canadian exchange should have grown subsequently relative to the volumes in Australia. The reverse has been the case. Over more than two years, volumes traded on the Australian exchange have gradually risen relative to quantities traded in Canada.

A weak correlation between trade in the two markets - statistically no different from zero - suggests that a Canadian presence has attracted a type of investor interest not evident in the Australian market. On the other hand, the mutually reinforcing reactions to changes in macro circumstances or development progress anticipated by the Cardinal directors has been absent.

The correlation between the Cardinal share price and the gold price was strongly positive before the dual listing but moderately negative since the listing. The Cardinal share price action is consistent with North American investors opting for one of their own when they are looking to take advantage of improved macro conditions, such as a rise in the gold price.

Mongolian copper mine developer Xanadu Mines took up its dual listing just over a year ago, in October 2018, "to further build the profile of the company". The listing would provide "a local trading platform for existing and new Canadian shareholders and investors", according to chief executive Andrew Stewart.

Since listing, trading volumes have been rising in both markets but ASX volumes have accounted for 98% of the total. A weak correlation between turnover in the two markets has suggested disparate motivations among investors, where there has been an interest.

The correlation between the Xanadu share price and the copper price was stronger prior to the Toronto listing than since suggesting, as with Cardinal, that north Americans prefer something local when making thematic investments. Meanwhile, Australian investors also appear to have begun looking elsewhere for copper proxies.

Argentine lithium pioneer Orocobre has had a Canadian market presence since September 2010 alongside its ASX listing. Being set to expand existing capacity, the company is also further along the development path than others within this selection of dual-listed companies.

Irrespective of the Canadian listing, Orocobre has had an unusually high profile within the international mining industry as an early disciple of the now widely embraced battery storage narrative.

The Australian market has accounted for 95% (and rising) of Orocobre's traded volumes. Stock turnover has also been highly correlated across the two markets.

With a faster growing Australian market share and similar influences guiding decisions in both markets, Orocobre does not appear to have achieved a significant advantage from its dual listing.

Investors taking similar views across the two markets have probably magnified the effect on Orocobre of flagging enthusiasm for lithium-exposed companies.

Whatever the evidence from individual situations, it remains easy enough for directors to say optimistically that "we're different" as they look for greener capital market pastures. This selection of companies, drawn from a range of development stages and geographic circumstances, suggests that promises of easier capital access, deepening liquidity pools and diversifying shareholder bases will probably go unfulfilled.

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