Mining Journal

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Canada vs Australia: Investment Outcomes

A Canadian listing is cheaper and more likely to attract institutional money but, in the absence of differences in investment returns, the choice between TSX and ASX is mostly driven by residential convenience.

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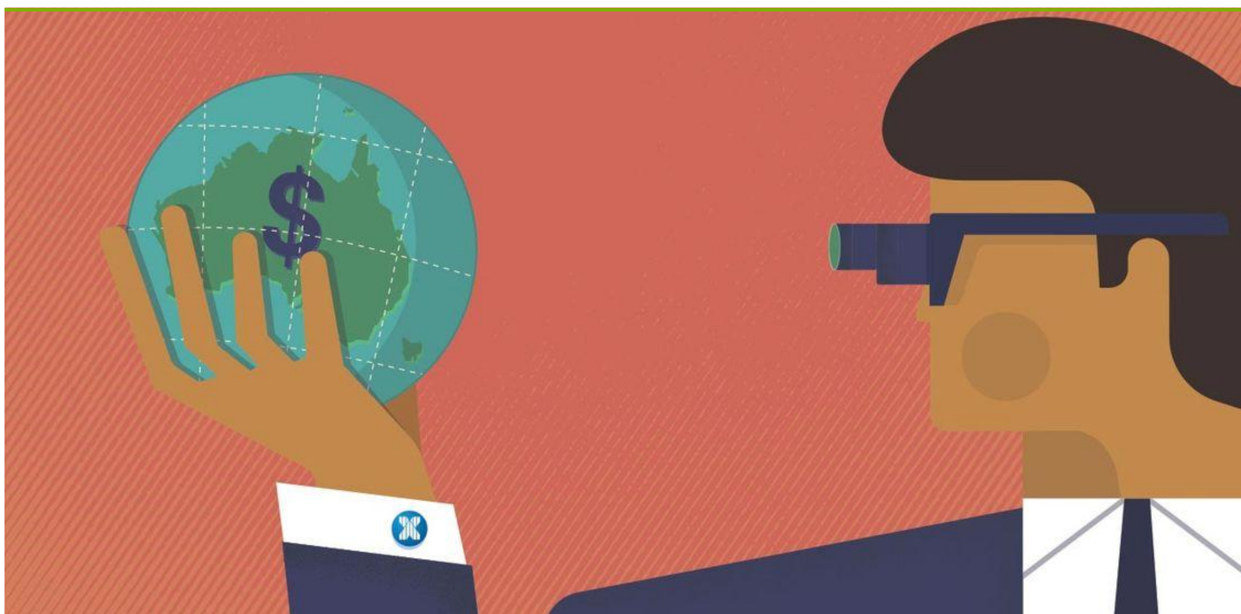

6 July 2018

Mining Journal's first up Global Finance Report is a comprehensive capital market primer for any wannabe participant in the global mining industry.

Among the topics discussed in the report published earlier this year is the choice of exchange - LSE/AIM, TSX/TSX-V or ASX - on which to list a mining company.

ASX is the most expensive of the three principal homes for the global population of mining stocks, according to the Mining Journal report. Compliance obligations remain a bugbear for small companies in all the exchanges - even where they are advertised as being small-cap friendly - with widespread dissatisfaction about the suitability of regulation for mining.

Only ASX offers access to a single market into which an entity can grow seamlessly into a benchmark index, if sufficiently successful, with the consequent attention from institutional investors.

In practice, the listing choice is dominated by circumstances. For gold explorers in Western Australia, an ASX listing is the simplest route to garnering the necessary financial resources. For similar reasons, a Yukon explorer will pick a Toronto listing.

The decision becomes slightly more complex when businesses cross borders. But, even here, residence tends to dictate the outcome. If the directors are all in Perth, an ASX listing is likely and less time consuming than a three-way international split between minesite, head office and listing location.

Jurisdictional familiarity is important. Occasionally, an Australian entrepreneur will start with a London listing because he has had prior experience there and is sufficiently well connected to raise the necessary capital.

At the end of the day, in a capital hungry industry, the choice is almost certainly dictated by where funding is most easily obtained, no matter the listing costs or the relative regulatory burdens.

From time to time, analysts will point to more favourable valuations in one market than in others.

There is some evidence of exploration companies being valued more highly in Australia than in Canada. The evidence about relative valuations for companies at more advanced stages of development is patchier.

Claimed value disparities often reflect historically disappointing business results for individual companies and the effect of stroppy shareholders on market prices rather than systemic valuation biases.

There is ample evidence that US investment institutions prefer to invest in North America-listed mining companies. Geographic allocations of funds within portfolios able to invest globally show a clear and persistent underweighting of Australian mining equities.

That bias does not mean an Australian company will necessarily gather more support by adding a Toronto listing. The location of mines and ready access to management also play a role, and are often more important, in the choices made by north American investors.

In any event, there are few real impediments to US fund managers venturing abroad if the investment proposition is sufficiently compelling.

Splitting liquidity across more than one market is problematic for all investors. Unfortunately, cross border trading remains technologically anchored in the 1980s. Analysts are also less inclined to follow companies with dual listings. Their employers, with an eye on the value of related capital market transactions, will prefer to commit resources to a company dedicated to a single market.

These are all matters of possible significance to companies but do not have much bearing on what should be the pre-eminently important investment question, namely, whether returns are consistently superior in one market to those in another.

A judgement on this question needs to look beyond the headline indices describing market performance and which exclude the bulk of the two thousand or so companies making up the listed sector.

Australia's indices are overshadowed by BHP and Rio Tinto, which are absent from or significantly less influential in the indices of other markets. Even Australia's so-called small resources share price index only covers some three dozen companies in a market boasting more than eight hundred resources listings.

The only way to deal adequately with the relative performance question is to measure investment outcomes across the entire universe of stocks in the two markets.

Over the two-and-a-half years since the beginning of 2016, for example, the median annualised return across the universe of TSX and TSXV mining and oil and gas stocks trading throughout that period was 21.9%. The arithmetic average was 34.7%. The standard deviation in returns was a high 66.3%, according to my analysis of the markets.

The universe of Australian stocks produced a median gain of 9.1% and an average of 19.2%. The

standard deviation of 57.6% was slightly lower than in Canada.

The apparent discrepancy favouring Canada conceals an important similarity in the shape of the returns distribution. In Canada, 61% of companies produced returns in the range -10% to +80%. In Australia, 58% of companies fell within this range. The modal ranges were very similar.

The Canadian distribution of returns had a thicker and longer right-hand tail. Slightly under 7% of ASX companies but 11% of Canadian companies had returns in excess of 100%. At the other end of the return spectrum, 15% of Australian companies (against 8% of the Canadians) had losses greater than 30%.

Applying the same methodology over 2011 to 2015 produces startlingly similar outcomes in the two countries. In Australia, the median return was -37.8% with a 22.1% standard deviation. In Canada, the median return was -37.2% with a 23.1% standard deviation.

Over this period of cyclically weak prices, 90% of ASX stocks produced negative returns. The comparable Canadian number was 87%.

Company directors might validly consider a listing based on whether they can raise more capital for the same assets in one market than in another.

Investors, on the other hand, should be more interested in knowing whether future investment returns are going to be sustainably better in one market than in the other.

On the evidence, neither Canadians nor Australians need to worry about their counterparts maintaining a significant investment advantage.

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