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IMARC shuns investment themes

Australia's International Mining and Resources Conference (IMARC) has grown impressively with a burgeoning emphasis on technology and operational excellence even while the quality of the finance and investment component has gone backwards.

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IMARC was hot on technology but slow on current investment trends

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Capital use is at the heart of any investment decision. Even an unsophisticated individual will intuitively want to know how much he must contribute, how much will be returned, and over what timescale when confronted with a proposition to buy an asset.

Those questions can be dressed up with complicated spreadsheets and months of due diligence in exotic locales but the fundamental thought process remains much the same whether buying an apartment or deciding whether to build a nuclear power plant.

Within the mining space, companies habitually duck and weave to avoid addressing these simple questions.

Commodity exposure, drilling results, metallurgical tests, the blindness of investors and the excitement of the next big project are much preferred topics.

Even those with feasibility studies under their arms will be coy about their use of prospective cash flows.

Against that cultural background and the need to attract corporate support, it is easy to understand how the producers of the Melbourne mining conference have largely mirrored the failings of the industry.

IMARC itself, probably inadvertently, highlighted some of the most egregious of the industry's shortcomings.

As well as the usual presentations by early-stage miners seeking capital, IMARC this year included investment pitch sessions from companies with productivity enhancing technologies.

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The latter companies typically explained the problem they were attempting to solve, the size of their potential market, how much they needed to invest and what they could expect by way of return.

The miners, on the other hand, concentrated, as usual, on how busy they were. Their reasons to invest amounted to a list of events likely to excite market fluctuations, the so-called share-price catalysts.

A director of one recently-listed company - in which original owners hold a 70% stake and who were primarily interested in finding investors to directly fund drill targets rather than fund the company - was asked pointedly why he had even decided to list on the ASX. He attributed the decision to one of Perth's well known brokers persuading him to do so.

The exchange highlighted how frequently capital management strategy is shunted aside to accommodate other interests.

The IMARC investment agenda embraced commodity-price movements as the sector's primary investment incentive, although the extent to which historic commodity-equity price links remain intact went unexplored.

The conference agenda also steered away from discussing the conflict between operational quality and commodity-based investment returns.

Paradoxically, given the conference emphasis, the best share market returns in response to higher commodity prices are likely to come from the lowest-quality operations in the sector - the ones most highly leveraged to an improvement in macro conditions.

One of the conference keynote speakers, talking outside the investment stream about innovation in mining, said the industry could not afford to be doing things the same way in 10 years as it is today. She envisaged a mining industry continually applying new technologies and, in doing so, possibly halving mining costs.

But if technology radically transforms future cost structures, will commodity prices rise or will they fall to match reshaped cost curves?

If mining costs are so unrecognisably different, will miners be content to capture higher margins or will they move into lower-grade ores, remain financially marginal, and still offer only mediocre returns on capital?

Perhaps, these are topics for next time.

For all its emphasis on skill and innovation, another missing ingredient on the conference agenda was anything to do with strategic nous in the most senior executive ranks. Any personnel quality deficiencies apparently occur elsewhere.

Discussion of corporate governance, disclosure practices or remuneration policies was also eschewed.

The falling share of investible funds going into the sector went unaddressed, too. People complained but did not think deeply about why it was happening.

As usual, one of the well-known streaming companies was invited to joyfully proclaim how much better its returns had been than those available from the bulk of mining companies. Here was another example of the conference inadvertently highlighting why miners are losing the day-to-day fight for capital.

For a start, for all their technical knowhow, streaming companies are a special category of investors, not miners. Streamers use their financial clout to get first grab at mining cash flows.

Ordinary investors rarely access cash flows and are more likely than not to see residual cash diverted into a succession of subsequent projects.

Streamers show how real miners could be rated if they directed cash to shareholders, in the first instance, rather than into a succession of risky capital-hungry ventures.

Fortescue Metals Group was trotted out to illustrate what is good about the sector while also inadvertently highlighting an existential problem. The flip side of its uniquely successful qualities is the dearth of examples of corporate success.

Sprott's Rick Rule, in his video linked presentation, observed correctly that industry success rates have been insufficient to sustain speculative interest, the lifeblood of the industry.

Nor did the conference address the constraints on industry funding emanating from innovations in investing structures.

Today's active retail investor can easily buy and sell geographically themed funds, sectoral funds, corporate and government bond funds, foreign currencies and overseas equities all with very low transaction costs. The more sophisticated can buy and sell associated options over these products.

A widening array of investment instruments is draining funds from the sector while satisfying the thirst for risk.

So, too, has the industry largely ignored a new generation of savers with diverse social and political leanings, differing ways of taking advice and, with that, a deep scepticism of old-style broking.

Despite this increasingly arduous landscape and far from looking forward, the IMARC investment content was scarcely different from how it would have looked 30 years ago.

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