Mining Journal

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# White Rock loses USP

White Rock Minerals is barely a shadow of what was promised three years ago, as a unique selling proposition has morphed into another symptom of industry malaise.

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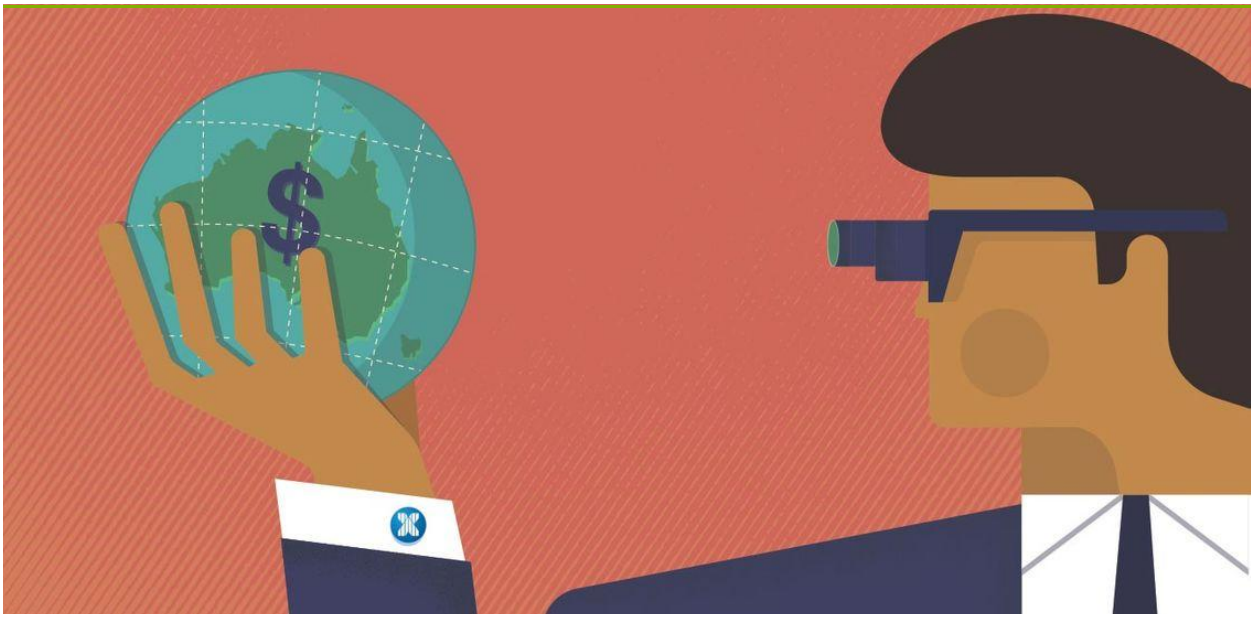

10 October 2019

Chief executive Matthew Gill strode to the lectern in January 2017 to describe a unique investment offering. No other aspiring gold miner at the same stage of development, he effused, had already locked in development funding.

Gill was referring to the Mount Carrington gold-silver project in northern New South Wales. He outlined a plan to produce 111,111 ounces of gold and 6.7 million ounces of silver over seven years with an upfront capital cost of A$24.2 million (US16.33 million). Free cash flow of more than A$100 million was expected, based on a A$1,600/oz gold price. Today's A$2,200/oz gold price would have added another A$67 million to the cash tally.

With a market capitalisation of just A$11.5 million, Gill promised "significant value uplift potential".

Key to the investment pitch was an equity injection and US$19 million development facility from a US investment house in exchange for a minimum 40,000oz of future production. The streaming deal with this "long-term strategic partner" was subject to a definitive feasibility study, then scheduled for completion within 12 months. According to these plans, production would now be under way.

Quick onset of cash flows would fund other exploration and development efforts without any dilutive share issues, Gill asserted. And on that point, Gill already had something in mind. He had acquired exploration rights over land prospective for zinc mineralisation in Alaska.

In writing about the company's plans in a 'From the Capital' column at the time, I drew attention to this approach as a failing in the way the Australian mining industry conducts itself.

In essence, the prevalent model uses cash from one project to fund a second or third each more distant in time. With each also having a chance of failing to meet its targets, the risk and time adjusted returns on capital invested fall away quickly.

The prospect of eventually paltry returns does not appear to register with company executives who universally complain, like Gill, that the value of their efforts on the initial project is being unfairly discounted. They misguidedly expect investors to act as though promised cash flows end up in the hands of shareholders when there is scant evidence of that happening.

> **One also has to wonder whether White Rock directors understand the value proposition behind the joint venture**

As it turns out, White Rock fell even further short of investment success than I had anticipated.

Month by month, the company's Mount Carrington project began to play second fiddle to its opportunities in Alaska. In July 2017, one third of its quarterly activities report had discussed progress along the path to a definitive feasibility study for Mount Carrington. A year later, the corresponding 19-page activities report included just 12 lines about the Australian project.

One year further ahead, in July this year, the company was seemingly bereft of a coherent plan.

"Strong Australian gold prices have encouraged the company to continue to explore avenues to advance the Mt Carrington Project with interested parties and several corporate advisory groups," directors said.

The unique selling proposition of 30 months earlier had been emasculated.

Now, confirmed in disclosures in the past week, gold-only production of 148,000oz over 54 months, possibly beginning in 2023, is set to generate free cash flow of A$22 million - not A$100 million - at the A$1,600 gold price assumed in 2017. Today's substantially higher gold price would lift the cash payback to A$110 million but the streaming deal, if consummated, would blow an A$88 million hole in this return.

And the promise of no dilutive share issues has been shattered. A series of placements since 2016 raising A$8.2 million has come with a 112% increase in the number of shares. With 1.64 billion on issue, the company announced another raising on September 30 at a previously unplumbed price. An additional 1.09 billion shares and options over another 363 million will hit the market if directors get the backing they want for a 2:3 pro-rata entitlement offer.

Executed differently, the switch from regional New South Wales gold to zinc in ice-bound Alaska could have been a deft strategic choice. Unfortunately, White Rock is poised to own just a sliver of what directors had referred to as "one of the highest grade and more significant deposits of any zinc company listed on the ASX".

A joint venture with Sandfire Resources gives the ASX-listed copper miner up to 90% of the Red Mountain zinc project if White Rock does not fund its share of a definitive feasibility study and development expenditure. In any event, the cash-rich Sandfire can elect to take 70% by spending A$30 million over six years.

Ironically, Sandfire itself has been searching for investments to soak up financial resources directors are loath to return to shareholders although, to their credit, they did complete their first project.

One also has to wonder whether White Rock directors understand the value proposition behind the joint venture. An August 2019 company presentation valued the Red Mountain project at A$39 million based on the initial A$20 million Sandfire is spending in exchange for a 51% share. Of course, Sandfire has not paid White Rock $20 million. Sandfire will retain an interest of at least 51% and up to 90% in its A$20 million investment, implying a more modest transaction value of A$4-19 million.

But let's be generous and say that White Rock raises no more capital than presently intended and Red Mountain succeeds sufficiently well to attract a market value of A$1.5 billion in 12 years, once in production. White Rock will have swapped the A$54 million raised and spent since listing for a A$150 million asset value. That hardly compensates for time and risk.

Investors could easily conclude that they would have been better off with a modest New South Wales gold mine and, undistracted by global ambitions, an industry model with an emphasis on putting cash back in the hands of shareholders.

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