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AIM to be measured against ASX

The bosses at Crusader Resources are defiantly waving a middle finger at Australian investors as they look to London's AIM for shareholders with looser purse strings and more malleable memories.

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AIM, part of the LSE, is apparently the answer to Crusader's valuation dilemmas

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A 48% share price slump began shortly after an announcement on August 2 last year that Crusader Resources would sell its small but profitable Brazil iron ore operations to concentrate efforts and limited capital on long-held gold interests in the country.

The most recent losses took the Crusader investment return to -95% since the mid-2011 peak in the iron ore price cycle.

While having to navigate a strategic commodity switch, Crusader has also recently suffered an embarrassing rebuff from shareholders of AIM-listed Stratex International. The British company's directors had proposed acquiring Crusader to build a more broadly-based gold explorer and mine developer.

The transaction, scuppered by a November 1 general meeting vote, would have left Crusader shareholders with an 81% holding in the combined entity. Crusader directors had touted the link as opening the door to a new and more receptive shareholder base through a listing on London's AIM.

"We're not being given the respect we deserve", is the frequent lament of companies tempted, after strategic embarrassments, to move their listings to where they will be more lovingly embraced. And so it has been with Crusader.

On December 12, having been forced to reassess its way forward, the company reaffirmed plans to grow via a commitment to the London capital market. Underpinning the move was an observation that "the valuation metrics of peer-listed companies in

the UK and North America reflects valuations considerably in excess of those currently being achieved by Crusader".

Of course, Crusader directors have compared themselves with companies considerably more successful in their development efforts, not companies which have failed to live up to expectations about their prospects.

The Crusader leadership seems more intent on blaming unappreciative investors for sagging value and not strategic backtracking, confused priorities, others' superior projects or simply bad luck

In a presentation released on November 24, Crusader directors identified the company as being the cheapest in a group of 17 on their chosen measure, namely, enterprise value per ounce of gold resource.

While this easily-sourced value measure is commonly used, market prices are typically driven by varying combinations of different factors, not just one single measure.

Ironically, the Crusader comparison only shows one thing clearly: so large are the calculated variations among the so-called peer companies that the market is obviously not using the selected measure as a primary price driver.

Crusader is still optimising its development plans for the Borborema gold project, after a suspended 2013 feasibility study, with an eye to a late 2018 construction start. From what we know, its prospective life-of-mine cash flows are heading toward a bond-equivalent return of around 14%.

Dacian Gold - one of its designated peers - has a market capitalisation 25 times higher than that of Crusader. It has been spending slightly less than A$200 million (US$157 million) on a new project due to produce its first gold within 12 weeks. Using the same cash flow analysis as for Crusader suggests a bond equivalent return of around 11%.

A three percentage point difference based on cash flow return metrics - perhaps the only true measure of value - is not unreasonable. Dacian shareholders are paying more than investors are paying for Crusader Resources but so they should.

Dacian, far closer to production, can present an overwhelmingly superior development track record to potential buyers.

Even after quitting its iron ore business to focus on gold, the Crusader share price has moved in the opposite direction to the 15% rise in the All Ordinaries gold index. The performance gap points to disappointed and possibly even confused investors.

New corporate narratives need more than nodding heads in a boardroom. On its own website, Crusader today describes itself as "a specialised minerals exploration company focused on bulk commodities…." and having "a diverse portfolio of projects including gold, tin, tungsten and uranium". The principal equities platform servicing Australian investors places Crusader in the 'Steel' industry group.

An altered description alone will not dictate returns but delays in making even the simplest changes to corporate profiles highlight the wide turning circle confronting companies trying to replace old guises with something more appealing.

The new chief executive of Crusader - the former head of Stratex who would have led the combined entity - comes with a background in London capital markets and an intention to "target growth through acquisition of accretive opportunities".

An upcoming meeting of shareholders is being asked to approve a package of performance rights for

Marcus Engelbrecht equivalent to 5% of the shares on issue. The share rights will vest without payment once the company's market value reaches A$150 million for at least 10 consecutive days prior to November 20, 2022.

Presumably, in the back of the minds of directors is some inferred link between profits and market capitalisation but the new chief also appears to have been given an unusually strong incentive to dilute the existing shareholder base.

The company is already targeting a A$20 million capital raising to accompany an AIM listing which could double the number of issued shares. Do that another four times over four years in pursuit of a bulking up strategy and Engelbrecht could reach his market value threshold with time to spare even with a static share price and without a single ounce of gold being produced.

Other companies have given their executives production targets or have linked long-term incentive payments to superior benchmarked returns to help focus attention on what is most beneficial for shareholders.

The Crusader leadership seems more intent on blaming unappreciative investors - including those who have already contributed A$70 million - for the sagging value being placed on its endeavours and not strategic backtracking, confused priorities, others' superior projects or simply bad luck.

More astute investors sourced through AIM but apparently unwilling to invest via ASX will supposedly make a difference.

Even without London's help, the Crusader sell-down was starting to look overstretched so fortuitous timing may yet enhance reputations. In any event, the AIM versus ASX test has begun.

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