Mining Journal

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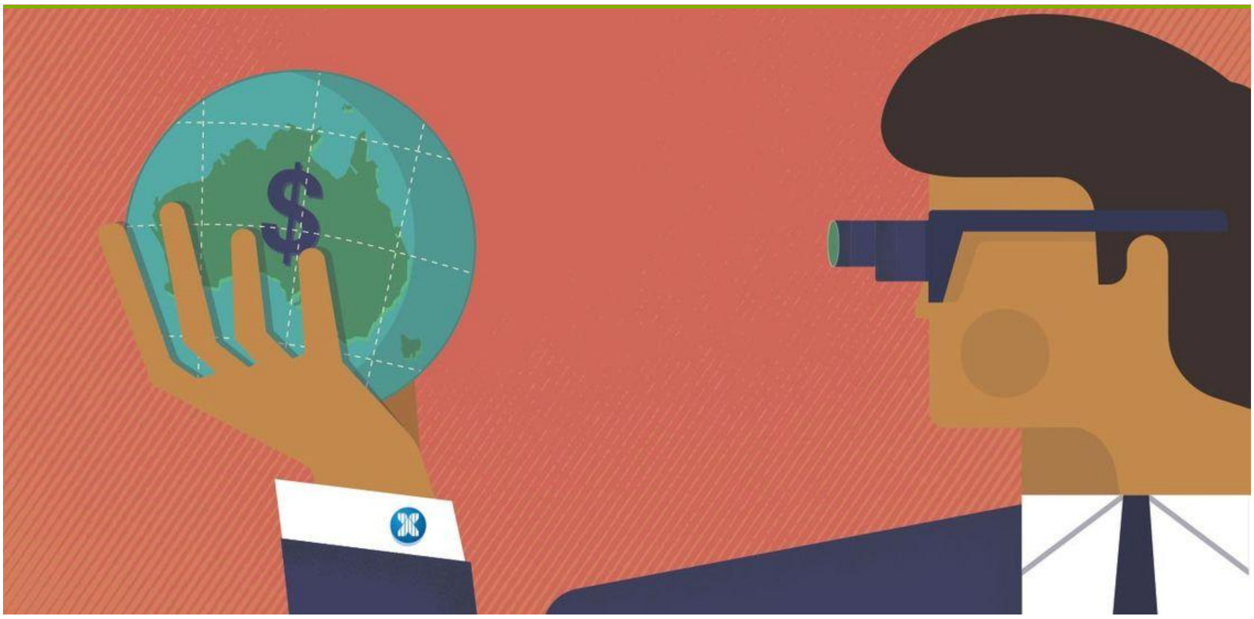
Kasbah raises disclosure questions

Kasbah Resources has missed a deadline for a definitive feasibility study without any acknowledgement or comment. Does it matter?

John Robertson*



13 July 2018

When trading closed at the end of last week, the Kasbah Resources share price was 60% lower than at its worst level following the sector-wide price plunge of 2008.

Over the years, the ebbs and flows in the fortunes of the company have been a microcosm of the challenges facing the wider industry and its investors.

Kasbah remains a compelling case study into why the industry's share of privately held investible funds is falling when the number of needy projects is on the rise.

The company listed in April 2007 with an issue of 40 million shares to raise A$10 million (US$8 million at the time). Today, its more than one billion shares are valued at A$12.5 million. In March 2018, it reduced its number of shareholders by 44% as it culled a decade of disappointment from its register.

Kasbah came to market with exclusive rights to acquire 100% of the Achmmach tin project at the site of a 1985 mineral discovery by a Moroccan government agency.

Confirmation of high-grade surface tin mineralisation prompted a drilling program in November 2007 leading to an October 2010 scoping study, a so-called definitive feasibility study in March 2014, key government development approvals in January 2015 and an enhanced definitive feasibility study in March 2015.

Another variant of the development plans was unveiled as a pre-feasibility study in February 2016 followed by another definitive feasibility study the following July. In December 2017, yet another definitive feasibility study was foreshadowed.

The 2015 development plan had involved an outlay of A$163 million in exchange for A$522 million over 14 years - equivalent to a 15.4% bond investment at the prices assumed at the time. Under the 2016 variant, a lesser US$64 million outlay was designed to produce US$149 million over slightly more than 13 years for a 10.1% bond yield equivalent. That would be 13-14% at the current tin price.

Kasbah is a classic example of the value trap afflicting many in the industry trying to make the transition from having a confirmed resource to completing a mine development.

Companies at this stage will have typically passed the point at which they can generate sufficient positive surprise from exploration to force a reassessment of market value. At the same time, they display insufficiently convincing project economics for investors to assume future development.

There is a risk of this transitional positioning being prolonged and extending well beyond an acceptable investment time horizon. This is one of the highest risk phases in mine development and where Kasbah Resources, impeded by some dubious decision-making of its own, has been trapped for the past several years.

Kasbah had once appeared among the best positioned to eventually overcome such challenges. Other well qualified observers must have drawn similar conclusions because it had a strong investor support base which included the finance arm of the World Bank, Toyota Tshusho, Thaisarco, Nittetsu Mining, Traxys and a handful of institutional investors.

Directors had spoken confidently, as they sought to recruit investors, about these connections leading to offtake agreements as well as future funding.

Kasbah apparently had a chance to get development underway in 2015 when, directors said, they had received "strong indicative offers of debt from several European banks and development agencies". Eschewing these apparent birds in the hand, directors backed their collective judgement that future higher tin prices would result in better terms.

A messy merger attempt, initiated in August 2016 and still the subject of litigation, was another stumbling block. It led to changes on the board, new funding and management replacement.

Having missed multiple goals over the years, Kasbah should have been more than usually diligent in its efforts to rebuild investor confidence.

The release of a new feasibility study offered an opportunity to have investors reassess the company's value proposition. Leverage to any perceived change in business circumstances was potentially high.

As late as 29 May 2018, the company had reiterated its commitment to a June feasibility study deadline after tweaking its production processes to improve the economics of the project.

The end of June passed and, ten days into July, nothing has been said by the company about the reason for the delay or when the foreshadowed report will be released.

In an email response to my query, a company spokesperson was willing to say nothing more than "the DFS is currently being finalised", in eerily similar words to those foreshadowing disappointment on earlier occasions.

My intention to review the economics of the Achmmach tin project, having followed its history for many years, has been thwarted. Instead, I have been prodded to talk about the consequences of yet another missed deadline.

Even then, stuff happens and a postponement could have been justified, well understood and accepted. In effectively thumbing its nose at the remnants of its investor base, directors showed they were either unaware of the company's credibility shortcomings or simply unconcerned.

The missed deadline raises a broader issue about disclosure policy. Too many companies - not just Kasbah - let deadlines slip without explanation. Dates which have been repeatedly emphasised for their potential market impact are prone to suddenly and without explanation lose their significance.

In a well ordered market, directors should feel some compulsion to say something as soon as they know they will miss a commitment to which they have attached a specific date.

Without an explicit acknowledgement of a change in plans once a decision has been made, all investors will have subsequently traded with faulty information or, worse, some may have been better informed than others. That, we know, is not supposed to happen.

There is one test of whether this matters. What if all companies behaved in the same manner? Would the market be more or less highly regarded? Would it be a safer or more dangerous home for savings? Would the standing of the industry be higher or lower?

John Robertson is the chief investment strategist for PortfolioDirect, an Australia-based equity research and resource stock rating group. He has worked as a policy economist, business strategist and investment professional for nearly 30 years, after starting his career as a federal treasury economist in Canberra, Australia