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Credibility shortage counts against Margaux

Margaux Resources chief executive Marco Roque refreshingly admits that history matters as he strives to convince investors that corporate credibility can be restored.

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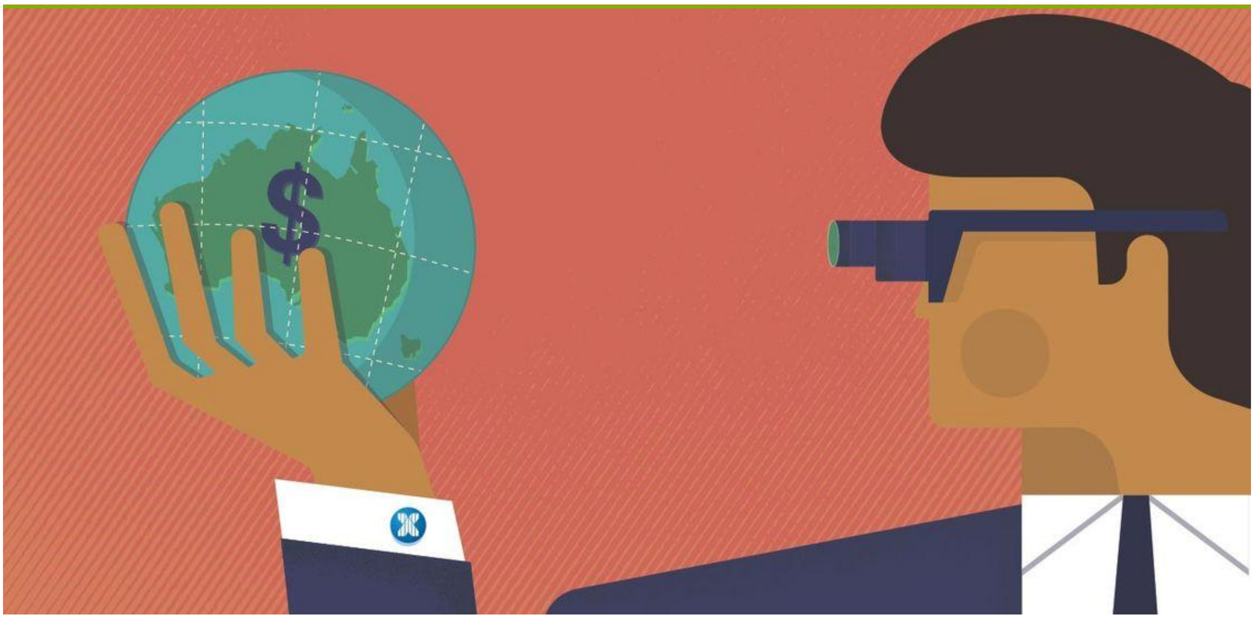

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Margaux is a TSX Venture Exchange company searching for a multi-million-ounce gold camp in northern British Columbia. Its 60,000 hectare land package, in an area of historical mining, contains the company's flagship Cassiar property.

Cassiar contains two main assets. The bulk-tonnage Taurus deposit has an existing gold resource estimated in September 2019 at a little over one million ounces. Table Mountain, with an on-site permitted mill, is being targeted for high-grade quartz veins. A historical 70,000oz resource, unverified by the company, was estimated in 2010.

A 5,000m drilling program, scheduled to start within days, is aimed at doubling the resource size, according to the company's pitch to investors.

Company executives have not been backward in trying to frame expectations, drawing parallels with Fosterville in Victoria to describe the potential.

The company's promoters are highlighting an opportunity to buy into a deeply undervalued stock priced at just C$23/oz of gold in the existing resource.

However widely adopted, using resource valuation as a guidepost to future investment returns is prone to disappoint.

If anticipated production rates, operating costs and development capital requirements are identical, one could reasonably expect valuations to converge provided, too, that the resource size is the same and management track records are indistinguishable. Having all those ducks in a row is nearly impossible.

The typically wide range of valuations at any point in time is clear evidence that markets are not pricing stocks based on resource size alone.

So, what are investors looking at in framing a price for Margaux as they bypass resource size as a price driver?

It turns out that Margaux has a less than auspicious history. It bears striking similarities to those companies referred to in my July 30 'From the Capital' column in which I drew attention to the poor investment return track record from strategy switches among Australia's junior miners.

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Margaux, with a 99% share price loss, falls squarely into this category of companies which have shed credibility as they laboured to escape prior strategic misadventures.

Margaux had a background in oil and gas before being redirected to zinc-tungsten mineral development opportunities in the south of British Columbia. Subsequently, in March 2019, those pulling the strings structured the Cassiar deal.

Margaux directors are now following a well-worn playbook. They replaced the previous chief executive, who had spearheaded the zinc-tungsten strategy, in June. Now, to better veil the history, a name change is on the cards as well as a reduction in the number of shares outstanding.

Warning signs abound. Yet, my interest was piqued by unusually frank comments from the newly appointed chief executive about the reasons for the hefty valuation shortfall. In a recent investor briefing, Roque referred to a large number of strategic pivots having caused shareholders to lose patience. It became harder to attract investors, he acknowledged. Probably prompted by the continuing presence of his predecessor in the boardroom, Roque hastened to add that the predicament was no one person's fault but conceded changes had come at a high cost.

Roque's ready acknowledgement of the causes of the investment malaise is a critical first step in a redemption plan. His frankness, in marked contrast to many others facing a similar plight, should be commended and copied.

Roque urged potential investors to think of the company as commencing a fresh start. He emphasised, too, the need for stronger technical input than had been available previously.

Here, it seemed, were signs of new management getting to the heart of the problem.

To assist the Margaux revitalisation plans, highly experienced geologist Doug Kirwin has joined the group as a technical adviser. Kirwin is credited with leading the discovery of Oyu Tolgoi for Ivanhoe Mines where he had spent over 15 years. He described the Cassiar project as "definitely one of the best opportunities I have seen in the gold space".

The impressively credentialed Kirwin is also chief executive of Realgold Resources. According to Margaux disclosures, his work as an in-demand consulting geologist also has him working on projects in the Philippines, Peru, South Korea and the Kyrgyz Republic. His presence and project endorsement adds much needed credibility, but existing commitments hardly point to a single minded focus.

The new chief executive himself is a director of a Hong Kong investment firm which has had a long-term stake in Margaux. The miner is evidently not his first-choice gig. The chairman, who heads up an Ontario-based digital marketing firm, has little mining industry experience to impart, even if he could commit the time.

The brother of the chairman, who joined the board in March, is an accomplished businessman but a finance executive rather than someone with an operational background. The relatively inexperienced former chief executive and present executive director also comes with an accounting background and a history in healthcare, real estate and oil and gas.

Only one director brings a technical mining discipline and a track record of working at the senior executive levels of the industry. Chris Stewart's biography shows him having worked in senior roles for five mining companies since 2007, before which he was with a mining contracting firm for 14 years.

Stewart left McEwen Mining earlier this year after 18 months as head of operations and following what apologetic chairman Rob McEwen forthrightly characterised as "a terrible year", admitting "we failed miserably". By the end of the year, a contrite McEwen told investors, "it was impossible to believe any forecast we provided for operations".

Credibility counts in a competitive marketplace. The market value of Margaux doubled during July, thanks to the impact of a higher gold price on a near all-time low share price. Now, Margaux desperately needs a credibility infusion, to go with a potentially high-quality resource and more buoyant market conditions, if it is to realise its otherwise latent investment prospects.

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