Mining Journal

Viewpoint > From-the-capital

Miners face unfair scrutiny

Australian market regulators unfairly discriminate against miners when it comes to policing disclosure practices.

John Robertson*

14 March 2019

ASX-listed Atrum Coal disclosed in a statement on February 7 it had been forced to retract value comparisons in a corporate presentation released two days earlier.

The Canadian coking-coal mine developer had published a full-page table headed ‘A highly attractive Canadian HCC project exposure' in the middle of a 30-page presentation. The table highlighted pertinent investment features for three other companies with Canadian coal development interests - privately-held Riversdale Resources and ASX-listed Jameson Resources and Allegiance Coal.

The table was not unusual insofar as it included information drawn from publicly-available data about the enterprise value, location, resource size and targeted production of the included companies.

The comparisons appeared little different from those used throughout the industry by listed companies soliciting investor interest. The table intimated that Atrum was relatively inexpensive based on how much was being paid per resource tonne for each of the four companies. Presumably, the company was more forthright in presenting itself as an undervalued opportunity in face-to-face encounters.

At best, such comparisons are analytically flimsy bases on which to build an investment proposition. They are often little more than interesting rhetorical devices used to attract attention. A 95% difference between the highest and lowest value, in the Atrum case, is evidence of investors being unwilling to close the gap not a sign that they will be tempted to do so.

But a quest for greater analytical rigour was not the reason disclosure police demanded a retraction of the comparison. Riversdale had a completed feasibility study. Jameson and Allegiance had both completed pre-feasibility studies. Atrum Coal had only progressed as far as a pre-scoping study.

ASX apparently thought the difference in study stage should have scuppered the comparison entirely.

> **Allowing contradictory approaches only makes sense if mining investors are less capable of discerning relative risk than those occupying the biotech space**

There had been no attempt to hide the differences in project status. If anyone thought study stage was material to a judgement about value, it was there to be considered as one of the factors impinging on an investment decision.

One could easily infer that if it had not itself drawn attention to the difference in study progression, Atrum's illustration of the value differences might have been overlooked.
With Atrum being valued at A12c (US8.5c) per tonne of resource while the latter stage Jameson was priced at A51c/t, for example, investors evidently knew that differences between the prices of companies at different stages of development made sense without tutoring from the market nannies at the ASX.

Implicit in the ASX attempted censorship is a view that investors may have been hoodwinked into believing that they should re-price Atrum, even after having demonstrated a prior unwillingness to do so.

Weirdly, the market operator seems to have concluded, despite contrary evidence, that its own market could not be trusted to assess the relevant information.

An ASX intervention might have been more valid had Atrum been the most expensive among the selected companies but, of course, Atrum would not have attempted the comparison if that had been the case.

The ASX could play a more meaningful educative function, if inclined to help, by urging companies to explain how identified price differences could be valid, not stopping companies from drawing attention to them.

In any event, the action taken by the ASX borders on the farcical. Once lodged, the offending material remains on the public digital record leaving investors free to access what the ASX does not want them to see and to judge how much weight, if any, they should place on the valuation comparison. In telling investors to take no notice, the ASX has simply drawn attention to the Atrum data.

The ASX approach also smacks of unfairness. AdAlta is an ASX-listed company testing drugs to treat fibrosis. It offers a contemporaneous example of how comparable use of benchmark valuations to solicit investors goes unchallenged elsewhere by the same market regulator.

Drug development has a direct corollary with the progressive feasibility study stages in the mineral industry. Pre-clinical testing - equivalent to ongoing resource definition for a miner - warrants a high discount rate when trying to price a company with a drug at this stage of development. Higher risks would attach to a drug entering a Phase I study than for one moving through well-defined Phase II or Phase III trials, which are more akin to latter-stage feasibility studies.

Speaking in Melbourne in February, the chief executive of AdAlta used a table containing eight corporate value benchmarks to set investor expectations of prospective returns.

Transactions valued between US$350 million and US$8.3 billion involving fibrosis assets in Phase I trials and beyond were used by AdAlta directors to frame expectations of investment realisations for their drug.

With a current market value of US$20 million and not due to commence its own Phase I trial until 2020, AdAlta's approach was directly equivalent to a miner stating a valuation target before defining a resource.

This is not a plea for AdAlta to be chastised for a breach of disclosure protocols. Investment markets are necessarily forward looking. Investors want to know what companies are going to do. They instinctively try to discern the financial repercussions of the corporate strategies with which they are presented.

Implicit in the treatment of Atrum is a sense that companies and investors should not engage openly on such topics. If they are to be discussed, it is a conversation best had away from the public gaze.

Implicit in the AdAlta treatment, on the other hand, is that valuation aspirations can be addressed openly and without hindrance from the regulator, no matter how outrageous some of the numbers might appear.

Allowing the two contradictory approaches to co-exist only makes sense if mining investors, as a distinct class, are less capable of discerning relative risk than those occupying the biotech space.

Without evidence of biotech investors being consistently more sophisticated than their mining counterparts, the difference in treatment is simply unfair.

**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.*