Mining Journal

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Kasbah’s last stand

The protracted demise of Kasbah Resources continues as the company’s directors abandon their ASX listing, dealing another blow to their most loyal shareholders.

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16 July 2020

On June 30, Kasbah directors announced they had asked the Australian Securities Exchange to delist the company's shares. On July 6, the Moroccan tin mine developer reported that the ASX had agreed to the request subject to passage of a special resolution at a meeting of shareholders.

ASX has also told the company it must give dissenting investors at least one month to exit their positions after any shareholder approval.

According to an ASX guidance note, a company seeking shareholder agreement to delist must include in its notice of meeting "such material as will fully and fairly inform security holders of the matters to be considered at the meeting and enable them to make a properly informed judgment on those matters".

The Kasbah board members are arguing that a delisting is in the best interests of shareholders because of the large disparity between project valuation and market capitalisation. The valuation gap, they say, is hindering the company's ability to attract funding for working capital on what they refer to as "reasonable terms".

Despite having sunk nearly A$75 million into Achmmach and having a 75% share in a project last valued at US$98 million, the company's market capitalisation has plunged to just A$1.2 million.

To meet the ASX standard, directors will surely have to confirm what value they now place on the assets of the company, the basis for the estimate, what financing is currently available for the listed company, why potential funding is unreasonably priced and what alternative financing possibilities exist for an unlisted entity.

To succeed in their delisting push, directors should be required to mount a convincing argument that new investors, given the choice, would rather pay a hefty multiple of the current market capitalisation for an illiquid investment than buy the assets at rock bottom prices.

Kasbah directors, albeit not those currently around the table, have form in badly judging financial market conditions. A June 24, 2015 'From the Capital' column referred to an earlier example of the company having eschewed a funding opportunity because directors backed their judgement that better terms were on the horizon.

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Kasbah is an especially tragic industry case study because it has fallen so far short of its considerable initial promise. In 2013, in an earlier 'From the Capital' column, I had described Kasbah optimistically as having moved rapidly along its development path, attracted by forecasts of inadequate metal supplies and primed to commence production around 2015.

By April 2014, one headwind, which has persisted to this day, had already become evident. An Australian equity investor could, at the time, obtain a gross yield of 5% from an investment in one of Australia's major banks. The implied 8% cost of capital used to value the Achmmach project was too skinny in the real life context of investments competing for retail and institutional money.

A March 31, 2014 definitive feasibility study put a value on the Achmmach project of US$126 million using a historically high tin price. Twelve months later, the slumping metal price implied a US$175 million value loss, according to the company's own modelling, leaving shareholders with a negative appraised asset value.

Over the next several years, the project never looked like being on a secure footing as overly optimistic market views were revised repeatedly amidst unsuccessful gambits to secure funding and multiple rejigs of operating parameters.

An August 9, 2018 From the Capital column entitled "Fourth time lucky for Kasbah", referenced a proliferation of so-called definitive feasibility studies designed to conjure a viable strategy. An April 9, 2020 column tracking the sorry tale and headed "Kasbah's doubtful destiny" implied an increasingly pessimistic view of the company's future.

All along the way, directors had been pointing to a stellar line-up of industry partners able to access cheap development funding on behalf of the company. None has been forthcoming.

Kasbah's now staggeringly high cost of capital, reflecting a unique history of failure, also embodies compelling lessons for the industry at large.

Kasbah directors were probably too conservative on matters that required more risk taking. More ambitious exploration budgets might have secured a stronger value proposition. A relatively short anticipated mine life, driven by a wish to limit exploration spending, left valuations looking too thin. The chance of further discoveries within the same region as Achmmach may have been strong but remained unproven.

At the same time, directors were too inclined to take risks on other matters, including backing commodity price outlooks over which they were ill-qualified to pass judgement.

When directors prepare their submission to shareholders in the next month or so, they should explain how Kasbah has had to duck and weave strategically too many times for it to secure a credible position among mining investors. They should argue that Achmmach needs a fresh home and a clean re-start.

Of course, none of that means a delisting is needed.

One can easily infer from ASX guidance around its listing rules that simply throwing in the towel was not thought a likely reason to delist. More commonly, voluntary delisting was expected to accommodate a

merger or a switch in domicile.

ASX guidance does envisage delisting as a mechanism by which security holders can realise value closer to the underlying value of net assets where a valuation gap persists. In such an instance, delisting would be a precursor to liquidation. That does not seem to be what Kasbah directors have in mind.

Getting the best price possible for Achmmach with a commitment to return all proceeds to shareholders would be the fairest outcome for those shareholders who have continued to show faith in the Achmmach project.

Without such a plan, the Kasbah delisting move smacks of an overt attempt to drive out the smallest investors, leaving the largest to pursue plans unencumbered by public scrutiny of their strategy.

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