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Regulators block key project data

Vimy Resources and Marenica Energy are examples of Australian mining juniors forced to withhold project details because regulators believe investors are not sufficiently intelligent to cope with the available information.

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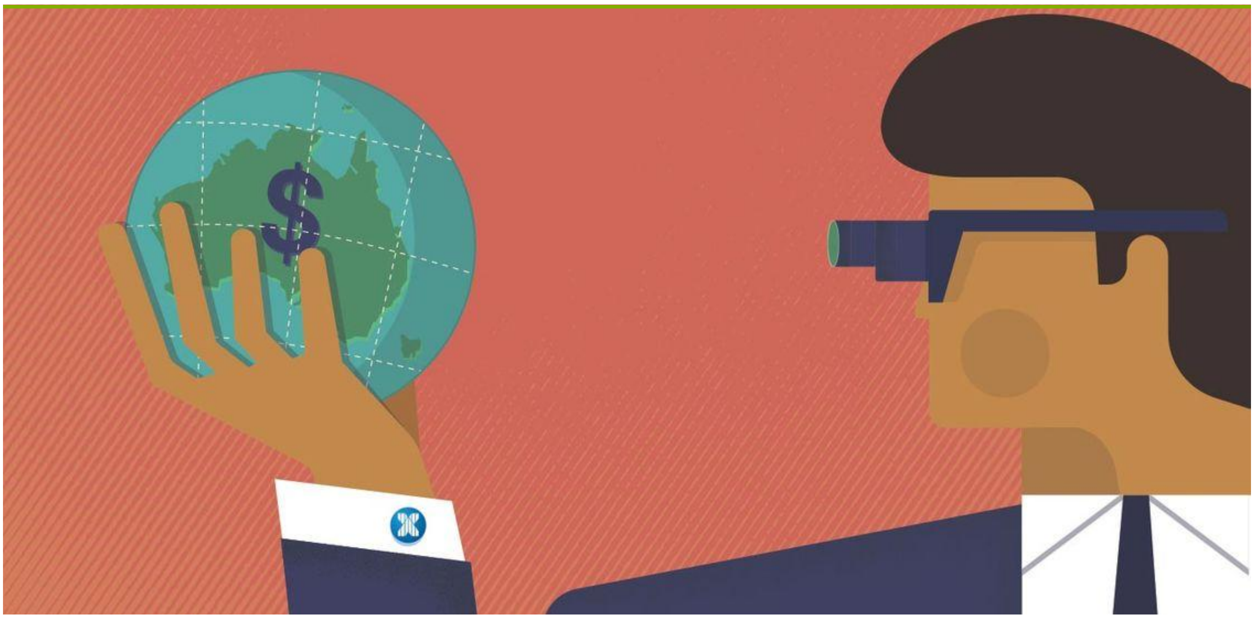

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Two weeks ago, my From the Capital column was about uranium company valuations. Placing a value on Vimy Resources, one of the 17 companies in my valuation model, required an economic assessment of its Mulga Rock project in Western Australia. Helping in that task was the information in a January 2018 feasibility study.

Putting a value on a second, more recently acquired Vimy uranium property - in the Alligator River region of the Northern Territory - posed a tougher analytical challenge. The company had completed a scoping study for the Angularli deposit in December 2018, but regulators prevented Vimy from disclosing details of anticipated production, operating costs or capital investment because the Angularli resource is classed as ‘inferred' under the JORC Code, which binds reporting by ASX-listed mining entities.

In releasing a censored version of the scoping study, Vimy directors conformed to the ASX listing rules in prominently warning investors about the "low level of geological confidence associated with an inferred mineral resource". At the same time, the Vimy chief executive was not shy in describing Angularli as a tier-one asset "with the potential to be profitable in any uranium market".

The company's bold claim about the project's prospects, unsupported by any admissible public evidence, suggested something highly material to investment decisions had been withheld.

Vimy directors were not plucking numbers from thin air in coming to their judgements about the attractiveness of the Angularli project. The Vimy board had commissioned an engineering study from an outside group. Similarly, capital and operating cost estimates were developed by another specialist firm. The company said 90% of equipment costs were based on quotes from vendors. The Australian Nuclear Science and Technology Organisation completed metallurgical test work.

The treatment of information about Angularli invites conjecture about the project value. Investors can attribute no value to Angularli, consistent with the implied views of the market regulators that the level of confidence attributable to the resource estimate is too low. Alternatively, prompted by the company's evident bullishness, they could take a guess about its key economic attributes.

“ **Implementation of the rules blatantly discriminates against individuals who cannot access private briefings for professional investors**

Angularli has some value. Discounting it entirely does not make sense. Unfortunately, any evaluation would be needlessly speculative when the best available information is blocked from public gaze at the behest of market regulators.

Marenica Energy is another company forced to confront this awkward predicament. It completed a scoping study in April 2017 based on a predominantly inferred uranium resource in Namibia.

Directors made a sizeable financial commitment to a study on the understanding that the results could be released publicly with the appropriate disclaimers and warnings about the riskiness of judgements based on an inferred resource. A reading of ASX listing rule 5.16 about the circumstances in which the company can publish a production target based on inferred resources informed their judgement that this would be possible.

Only after the study was completed and ASX had been consulted about the content of a public statement did ASIC, Australia's corporate regulator, step in to block the release, according to Marenica Energy chief executive Murray Hill. Hill said he was told, in his discussions, that ASIC enforcers were "protecting mums and dads from inaccurate scoping studies".

Like Vimy, Marenica did not pluck numbers from an analytical vacuum. The company had commissioned external consultants well-versed in African and uranium mine development to review the processing and infrastructure needs and upgrade the mine plan. The participation of such reputable technical specialists implied that enough geological information had been gathered to make judgements, appropriately qualified, about the underlying value proposition.

Marenica had a special reason to want independently reviewed cost estimates on the public record. It has a patented beneficiation process (U-pgradeTM) which, directors had said, could halve operating and capital costs for low-grade surficial ores and cut the time needed to ramp up production. Independent views of the company's claims about the beneficial impact of the U-pgradeTM process would be critical to building (or destroying) investor confidence in the company.

In this case, investors are being forced to either ignore Marenica because the information gaps are too great or make an investment call without the most important piece of the analytical jigsaw puzzle.

Directors of both Vimy and Marenica will use the information gleaned from their studies for future capital allocation decisions. Ironically, ASX and ASIC are taking it upon themselves to tell investors that the same information is unreliable and not a fit basis for an investment decision.

The existing disclosure regime is supposedly predicated on the assumption that all investors are entitled to the same information at the same time. Contrary to this laudable principle, implementation of the rules blatantly discriminates against individuals who cannot access private briefings for professional investors.

As Hill points out, small investors who had helped fund the previous work of the company are disadvantaged if only professionals can access the relevant information. They may lose a chance to take advantage of their earlier investment insights through later share placements, if excluded from the information flow.

While a regulator might think of an institutional investor as being more capable of assessing investment risk than a so-called mum-and-dad investor, many individuals investing small amounts of their own money are among the most astute, risk aware and knowledgeable judges in this space.

Private investors are also the people on whom early-stage companies rely most heavily for their funding, day-to-day market support and, ultimately, survival. They are the lifeblood of an industry.

Yet market regulators are deeming them too stupid to be trusted with relevant details about their investments or, worse, compelling them to invest with sub-standard information.

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