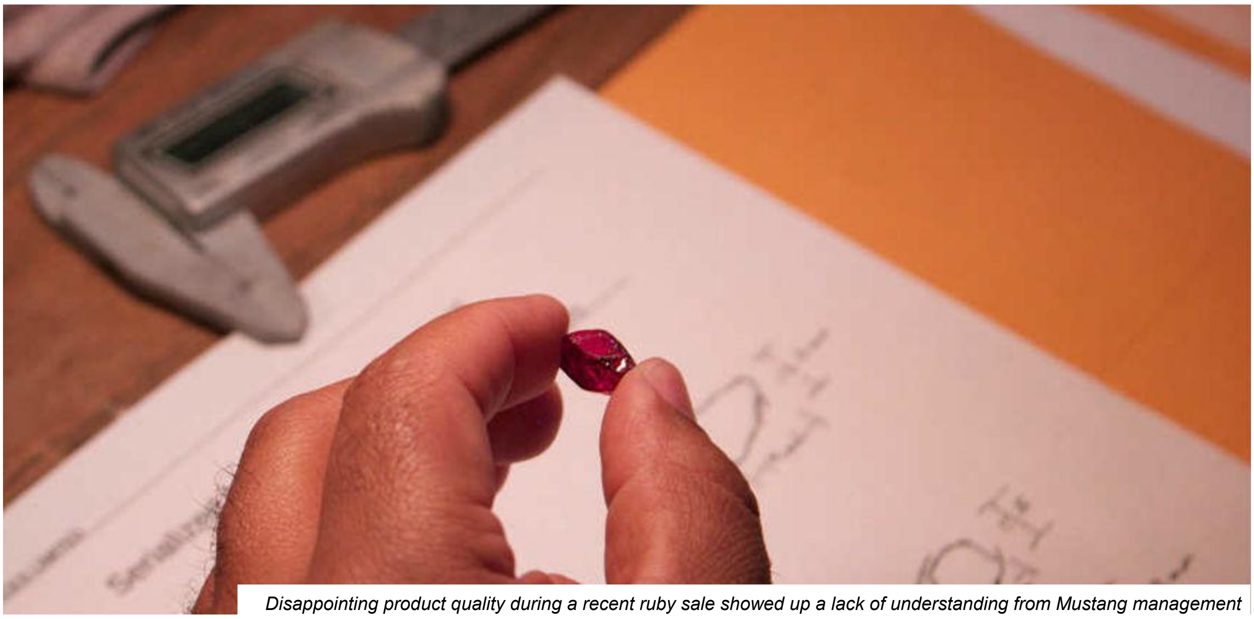
Mining Journal

Mustang squanders investor appetite

Mustang Resources must rejig its business plans to reconnect with investors after badly misjudging its ruby marketing strategy.

John Robertson*



Disappointing product quality during a recent ruby sale showed up a lack of understanding from Mustang management

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In early October, a small crowd gathered around Mustang Resources chief executive Christiaan Jordaan after he had joined several other executives to pitch to a room of retail investors.

Jordaan had received more questions than any of the other presenting executives while still on the dais but the crowd wanted to know more after the formal meeting had closed.

Meanwhile, a solitary chief executive of Gold Road Resources - a more substantial company by any standards - along with other presenters, were getting less attention than the plates of tasty post-presentation pastries.

Mustang lacked the abundance of colour-coded drill results and geophysical anomalies offered by its industry peers but could cut through a crowded field of investment wannabees with a unique narrative.

Mustang's investor magnet was a ruby-endowed tenement in Mozambique adjacent to the operations of Gemfields, recently acquired by Palinghurst Resources for £211.5 million (US$278.5 million).

Even without having estimated a resource, Mustang was accumulating rubies. At the time Jordaan was speaking, his inventory had exceeded 350,000 carats.

Jordaan had not said explicitly how much the inventory was worth but Gemfields was averaging around US$28 a carat in its 2016 sales which, if duplicated, might have put the Mustang potential sales value at around US$10 million.

Enthusiasm about the company's future was evident, too, on social media where one investor recorded how he had persuaded his wife to back the company with the majority of their savings.

> “ **The mining industry still struggles to attract the speculative funds needed to support its early-stage efforts**

By mid-September, the share price had already doubled in less than a month. It was set to double again within the following month as the first of its planned ruby tenders modelled on the diamond selling methodology pioneered by De Beers and being used by Gemfields neared.

Jordaan had also highlighted his approach to capital management to help recruit investors. He was publicly critical of the traditional industry model of bypassing shareholders by redeploying cash from one project to another. He promised to return all excess cash to shareholders. If he came up with another investment idea, he said, he would seek out fresh backing.

He even baulked at a commitment to the company's 100%-owned Caula graphite project located along strike from the Syrah Resources Balama find in Mozambique. He said he would bring in external funding for Caula after demonstrating the resource and possibly divest the asset to prevent any drain on capital or ambiguity about the company's focus.

So, Jordaan was offering an unusual, if not unique, investment proposition given his product offering and approach to husbanding returns for shareholders.

Throughout 2017, the company had been reporting a steady build-up in saleable inventory claiming a few days before its planned ruby tender in Mauritius to have attracted 42 buyers to bid for 405,000ct.

The company's shares were still trading while buyers were in the room sending out reports about the quality of stones failing to match what they wanted.

The share price had fallen more than 40% before ASX trading was halted, though the company subsequently blamed the ASX for ignoring an earlier request to suspend the market.

In any event, the sale was a dud. The company reported selling only 29,463ct for A$713,456 (US$542,000) suggesting an average price of less than US$19/ct.

In contrast, on November 13 this year, Gemfields reported having sold 605,229ct out of 682,508 on offer in the previous week for US$54.96 million at an average price of US$90.81/ct.

Mustang has grappled unconvincingly to define an effective way into the fledgling market.

Until early 2017, Mustang had been telling investors it would bypass intermediaries to sell polished stones.

After what Jordaan called a "comprehensive market study and discussions with key prospective customers", he embraced the Gemfields format in April. That first marketing U-turn precipitated a halving in corporate market value.

The latest misstep raises the possibility of the company having to issue more shares rather than being able to rely on gem sale proceeds to fund its nearer-term development progress. That might be the least of its worries.

Angry retail investors would have been ready to make Jordaan's life a living hell. On November 13, unsurprisingly, he resigned as chief executive.

The company has more or less admitted that its grasp of the ruby market was inadequate. Many months will be needed before it can better match what buyers want to see.

Before then, the investment proposition will need renovation. Scepticism will meet Jordaan's successor no matter what his background.

The newcomer might also have different views about the company's development and capital allocation priorities. Graphite might prove a more tempting lure or, at least, a handy distraction.

Even then, investors could legitimately ask whether management knows anything more about the graphite market than it might have claimed to know about the marketing and sale of rubies.

Disclosure practices could also do with a tweak. The company did not release any information about the quality of the gems it was seeking to sell in Mauritius. This was a departure from the regulatory framework that generally applies in the mining industry where the quality characteristics of output are usually well defined and often subject to global standards or pre-arranged customer testing.

In future, to rebuild its credibility and match the disclosure obligations on other companies, Mustang should be just as explicit about the quality of its offering as it is about the quantity.

Having been bitten twice, Mustang Resources investors will be more inclined to trade around events than back medium-term development.

Paradoxically, in a world awash with the cheapest and most plentiful supply of capital in modern business history, the mining industry still struggles to attract the speculative funds needed to support its early-stage efforts.

Mustang is one of a lengthy list of industry disappointments that help explain the reticence to fund the sector.

**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*