

Opinion

FROM THE CAPITAL

Bank shows explorers no respect

National Australia Bank should be ashamed and Impact Minerals fuming

John Robertson*

National Australia Bank, branded locally as 'NAB' and one of the official four pillars of Australia's financial system, offers a digital platform through which customers can buy and sell shares.

The web-based interface purports to offer an extensive range of trading tools to assist decision-making. The bank portrays itself as providing research with investment recommendations on any of the companies listed on the ASX.

The bank contracts external research, but also offers its own conclusions "based on the combined strengths of three methodology providers".

Impact Minerals is among the best positioned of hundreds of ASX-listed exploration companies. It is searching for platinum group and base metals in the historically significant Broken Hill area. The company is led by an experienced mineral exploration executive.

Recently, interests associated with Fortescue Metals founder Andrew Forrest invested in Impact's exploration effort having independently been impressed by the prospectivity of its tenements. As a result of the Forrest intervention, Impact is unusually well funded for a company at its stage of development.

So, what is NAB's opinion of this company it describes negligently as focusing on tenements in Africa?

The NAB "ResearchTeam™ Recommendation" is "Sell". There has been a net fall in the Impact share price of just 3% over the 95 days the recommendation has been in place compared with a 5% fall in the benchmark against which its performance is measured – not enough to validate such an emphatically negative stance.

The bank's most bullish view of the company came between November 13 and December 6, 2015, when it recommended that investors "Hold" the shares. During this time, the Impact share price fell by 21% and by 24% more than the benchmark.

While the Impact share price was rising 95% between May 17 and November 13, 2015, the bank maintained a sell recommendation. In other words, the bank's investment recommendation has been consistently and comprehensively wrong.

NAB is not alone in buying high and selling low. All analysts have fallen into that trap before. But it would be hard to find a respect-



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able research group whose recommendations are framed using a methodology so likely to give clients a bum steer.

The bank lazily tries to apply the same methodology to an exploration company as it would to a company at any other development phase in the industry or in another sector entirely. Consequently, readers of its research are informed unhelpfully that Impact has a worse dividend yield than BHP Billiton or Amcor.

The research report shows a price performance comparison chart reaching from September 2015, which clearly illustrates that the Impact share price has outperformed both Rio Tinto and BHP Billiton. Yet, in 14-point bold type, the report also alerts investors to Impact having been "one of the worst performers in the materials industry".

Any potential investor who had happened upon the Impact name in the news and had gone looking for information would receive an unequivocal message from NAB. And yet, a more misleading piece of equity market research being passed off as worthwhile would be hard to locate.

NAB has produced an unambiguously negative report on an exploration company without giving a moment's thought to the geological characteristics of the ground over which it is exploring, the discovery history of the area or the abilities of the people managing the task.

An investment recommendation has been proffered without the scantiest regard for the factors contributing to the company achieving its objectives.

More work has gone into the report's disclaimers than its analysis so that the bank would be able to successfully weasel out from under any criticism about what it has

done. Nonetheless, the bank's approach still says much about the plight of Australia's mineral explorers and the barriers in the way of being treated seriously.

Mineral explorers underpin an industry that can contribute as much as one-tenth of Australia's national output. Over the past five years, according to the Australian Bureau of Statistics, over A\$32 billion (US\$24 billion) has been spent on mineral exploration in Australia.

This amount does not take account of the activity for which Australian companies are responsible outside the country. Despite its importance to the national economy, the exploration industry is being treated as if it was of little consequence.

Of course, NAB is not the only bank guilty of insultingly giving the industry the middle finger. Impact is not the only victim. Nor are the banks the only ones to blame. They pay the bills of research houses that dress up such detritus as worthwhile analytical effort.

No doubt, there are investments in the sector best approached only with the equivalent of a barge pole and breathing apparatus. Frequent bad apples encourage many analysts to neglect the sector entirely or treat it with disdain.

Groups like NAB use this as an excuse for not according the industry more respect. And, in failing to recognise its virtues, they also perpetuate its shortcomings.

The overall standing of the industry would be enhanced if the bank and its research providers possessed a methodology capable of differentiating dross from quality within the sector.

Some specialist researchers are producing quality information about Impact Minerals and its peers. Unfortunately, scalable digital platforms demanding 'one size fits all' analysis are becoming more influential.

The young investor new to the sector putting a toe in the investment waters for the first time and looking to recommendations from apparently trustworthy sources faces an increasing likelihood of being misled.

Since mineral explorers will hardly be the most lucrative of corporate banking customers, commercial pressures to change will not resonate strongly through the executive suites of the financial institutions.

My only suggestion is that all the explorers publicly sign a pledge that, if they do eventually possess attractive banking business, they will give NAB as much consideration as NAB gave them when it had the chance. ▼

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