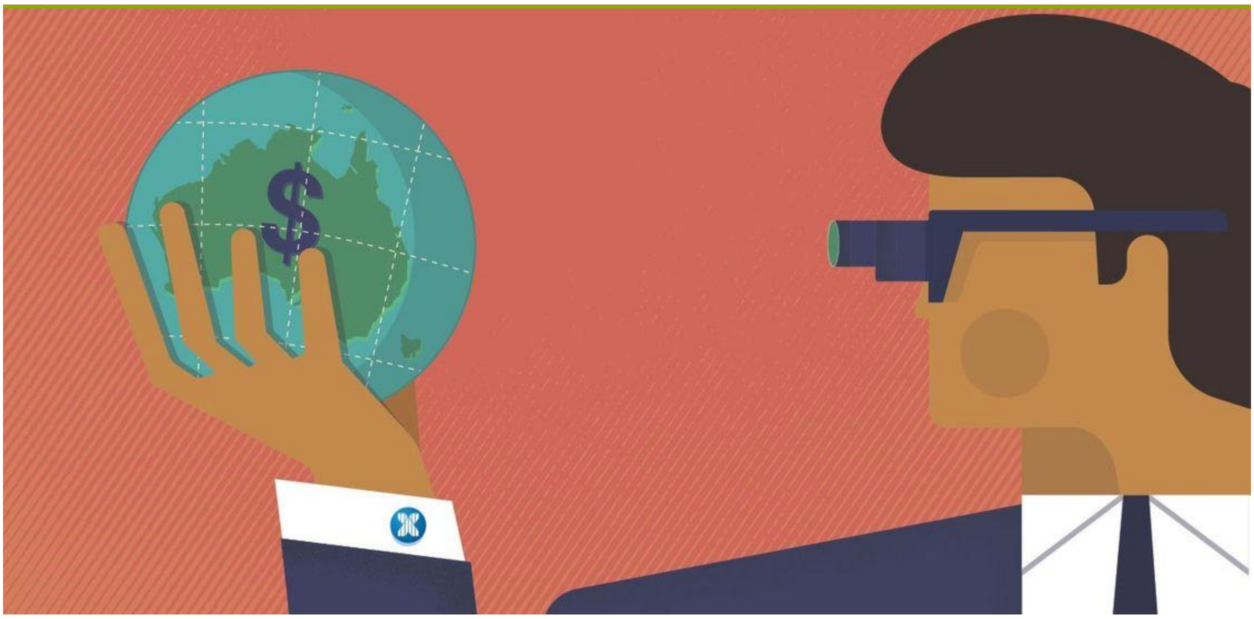
Mining Journal

Viewpoint > From-the-capital

# London investors dictate strategy

Elementos executive director Chris Dunks recently attributed an unresponsive share price to the company not having been out and about marketing its prospects, not to the more obviously serious causes of its valuation malaise.

John Robertson*



18 April 2019

The Elementos share price has been remarkably stable over the past four years confined, for the most part, to a lowly A$0.006-0.008 range where it sits presently.

Investors have apparently not seen anything to warrant a reappraisal of the company, now with a market capitalisation of slightly over A$9 million.

In September 2015, when the company was valued at just under $8 million, then chief executive Tim McManus was telling investors the company had a single focus on a tin project at Cleveland in Tasmania.

McManus was planning a 2017 production start, a slight delay on the late 2016 target foreshadowed by his predecessor earlier in 2015. Under the McManus plan, a first stage, capturing tailings from historical mine activity, would pay for a subsequent openpit development to be followed by a move underground, in a proven tin-rich region. An investment of A$21 million was said to generate A$55 million over seven years and A$166 million before tax over 15 years.

Critical to the investment pitch was the support of local environmental activists. The usually anti-mining lobby in Tasmania had given the green light to the proposed development because it included a clean up of old tailings as a precondition.

The Elementos game plan sounded cogent enough even if it also sounded like many other promising endeavours at the same stage of development. The differentiating factors seemed to have been a low capital cost, environmental lobby backing and a potentially speedy commencement.

Fast forward and the proposed Cleveland development is today further away from a start than it was supposed to be in 2015.

Under the current plan, supervised by the third chief executive in four years, Cleveland is scheduled to begin production in 2022. Before then, in 2021, the company aims to begin production at "one of the best undeveloped tin resources in the Western World" in southern Spain, conditionally acquired in July 2018. After Cleveland gets under way, the company is looking to produce tin at a third site in Malaysia commencing in 2024, subject to negotiation of a farm-in and joint venture agreement.

The focus on Cleveland has morphed into what the company now characterises as "a low risk growth strategy" based on "a diversified portfolio" of tin projects "to deliver high value for shareholders with exciting growth potential".

There is a lot for an investor to absorb in this restated strategic blueprint. Among the questions is whether three projects have boosted the chance of success or simply multiplied the chance of failure. And, if success is now more likely, why? Also, does a threefold replication of the same macro exposures qualify as diversification?

> “ **Getting one project away is the surest way to recultivate the fear of missing out and encouraging a more favourable investor response to future endeavours.**

The company has proffered an explanation for why the Cleveland project has been relegated to just one of three. Speaking to investors in Melbourne recently, Dunks explained how London investors had prodded the company to bulk up because they could not invest in a small Elementos.

Citing a small size as an investment no-go is a decades-long ploy of investors in the USA and Europe confronted with a plethora of capital hungry Australian companies on their doorsteps. Reluctant to say "no" outright, size is the most commonly used way of ducking an overtly negative response to an investment pitch.

Most frequently, the size excuse is used as a polite way of saying, "come back when you can demonstrate a better track record". City investors have backed plans without much regard to size when they have considered them sufficiently compelling, often when the promoters have confidence boosting track records to command respect.

Companies are only too ready to draw an overly positive inference from these conversations. So, Dunks is giving Australian investors the impression that their London counterparts are on the verge of supporting the company now that they have three projects rather than simply one. Hence he is back on the road heralding the new business model.

Elementos is far from the only company willing to embrace an easy way out of a strategic pickle when reputable investors seemingly offer an excuse for a change in direction.

Before putting too much of his credibility on the line, Dunks could valuably review how many other companies have returned from London with similar assurances over the years, how few actually secured the intimated support and, more importantly, why.

Back in Australia, these tales of imminently supportive fresh investor interest largely fall on sceptical ears. Counterproductively grumpy directors complaining about investor neglect are politely ignored as the fear of missing out - usually a vital investment motivation - remains absent.

However sensible newly embraced strategies might appear on paper, investors are happy to discount the cost of missing out on a successful development, amid prior disappointments.

By second guessing their own plans after having been so insistent about their merits, Elementos directors have foregone a chance to establish a reputation for development competence and, in doing so, build a foundation for future support.

Getting one project away is the surest way to recultivate the fear of missing out and encouraging a more favourable investor response to future endeavours. Success breeds success. Unfulfilled promises breed scepticism.

Meanwhile, the 'poised London investor' argument has so far proved largely fallacious.

Elementos, like those having trodden the same road before it, risks getting caught in an investment no man's land as sceptical locals lose interest enabling those feted London investors to keep using size as an excuse to stay away, dashing another expectation of improved investment returns.

**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.*