

Home > From the Capital > Steak or sizzle?

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'All sizzle and no steak' is a well-worn descriptor of excitement unmatched by product quality and one that springs to mind when reviewing outsized mining stock returns.

John Robertson* | 19 Jan 2017 | 6:12 | Opinion



Investors must be wary not be burnt by sizzling stocks that lack real bite

Twenty ASX-listed resources companies produced returns in excess of 400% in 2016. The top five performing stocks averaged gains of 1,500%.

2016 Top Five ASX Mining Returns

| | |
|------------------------|---------|
| Realm Resources AU:RRP | +4,000% |
|------------------------|---------|

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| Argosy Minerals AU:AGY | +1,350% |
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These sorts of gains are not uncommon in our industry and constantly leave investors confronted by choices requiring them to distinguish between 'steak' and 'sizzle'.

As the past year's crop of high flyers shows, there is money to be made from 'sizzle' but, ultimately, wishful thinking is not enough. 'Steak' is needed to sate the appetite of investors for something financially nourishing.

The ASX small-resources share-price index increased 58% in 2016. One of the two strongest calendar year gains in over 20 years - the other being the 2009 recovery from the financial crisis - was driven primarily by a reappraisal of macro conditions.

Intensified pessimism in late 2015 about the global macro picture had driven mining industry-related prices to another cyclical low.

Just on a year ago, as investors concluded the world was not such a dangerous place after all, mining stocks were among the most susceptible to reappraisal.

A 60% turn in the small-resources index within the first half of 2016 coincided with a re-pricing of risk by investors across multiple asset classes. Low-grade corporate bond yields fell from financial crisis levels of over 20% to 15% (before heading toward 10%) and emerging-market stock prices increased 21% at the same time.

Gold prices benefited by nearly US\$3,00/oz as closely connected US government-bond prices rose by as much as 21%.

As the year wore on, some of the gold-related impetus for higher share prices was lost but copper and iron ore prices responded to apparent improvements in Chinese manufacturing output rates. Coal prices also displayed surprising buoyancy as Chinese supply-side adjustments affected market balances.

"Only Realm Resources seems to have enough substance to be labelled more 'steak' than 'sizzle'"

Later in the year, unexpectedly conclusive victories for Donald Trump and the Republican Party in US elections propelled markets higher. Promises of lower corporate taxes, reduced regulation and more spending on infrastructure compelled money managers to put more into the long-neglected resources sector.

Macro forces drove overall returns but an appraisal of the strongest gains in the sector during 2016 would be incomplete without referring to the lithium frenzy that prevailed throughout the year.

Of the five ASX-listed miners with the strongest share price gains in 2016, four have been seduced by the lure of the battery material.

Argosy Minerals executed a farm-in agreement to earn a 90% interest in the historic Rincon lithium-bearing brine property in Argentina.

The company has said it is aiming to start and complete construction of lined evaporation ponds by the end of the first quarter of 2017 and finish a lithium-carbonate pilot plant by the end of the third quarter.

Sometimes, company executives put forward fast-track development plans to impress potential investors about their determination to succeed. 'Fast track' is often a euphemism for 'highly improbable'.

Against the pitfalls faced by others and the backdrop of how quickly development actually occurs, the timetable built into the ambitious Argosy Minerals game plan seems an unrealistic stretch.

Global Geoscience directors seemed to have given up on mineral exploration in April 2016 when they were enthusiastically embracing an e-commerce future but, by May, the company was acquiring a historical lithium-boron exploration property in Nevada.

After investors endorsed the company's commercial nimbleness by filling a A\$6 million (US\$4.5 million) subscription, it conducted a limited drilling programme and hastily defined a relatively low-confidence resource in late 2016.

Lithium carbonate occurs within distinct units of the boron silicate mineral searlesite, leaving the directors of Global Geoscience and their investors to ponder the metallurgical challenge of how to competitively isolate the lithium from accompanying boron.

Cougar Metals reported having a letter of intent to earn an 85% interest in Brazilian exploration tenements prospective for lithium. Previously, the company had been exploring for gold and base metals in Western Australia and Canada.

None of these three lithium neophytes have prior experience in lithium exploration, project development or sussing out speciality chemical customers, marking them out as more 'sizzle' than 'steak'.

Hannans commenced drilling for nickel in the Forrestania-Mount Holland region in Western Australia after turning its back on fruitless Swedish exploration efforts through a demerger of its European assets.

In what looked like a sigh of relief, all the market gains occurred prior to completion of the corporate action.

Recent statements that the company would also look out for lithium exploration targets on its prospective nickel properties signaled an urge to hop onto the bandwagon to enliven interest.

Hannans, too, warrants being thought of as having an over reliance on 'sizzle' for its unusually strong investment returns.

Of the five top performers, only Realm Resources seems to have enough substance to be labelled more 'steak' than 'sizzle'.

The Taurus investment group-backed company acquired a majority interest in the Bowen Basin Foxleigh coal property in August, although the ASX has subsequently deemed the transaction a backdoor listing resulting in the current suspension of the company from the exchange pending compliance with relevant listing rules.

The Foxleigh property comes with existing low-volatile PCI coal production. A resource statement released in December pointed to marketable reserves of 39.2 million tonnes. A conventional truck-and-shovel operation with a dedicated wash plant would be linked to the Dalrymple Bay export coal loader by existing rail infrastructure.

Realm Resources is the only 'Steak' in the top five in an ironic investment face-off between old world dirty coal and the squeaky-clean image of new-age lithium.

**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*