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Battery thematic energises Australian stocks

Past performance, it turns out, is a guide to future performance; just not in the way you might think.

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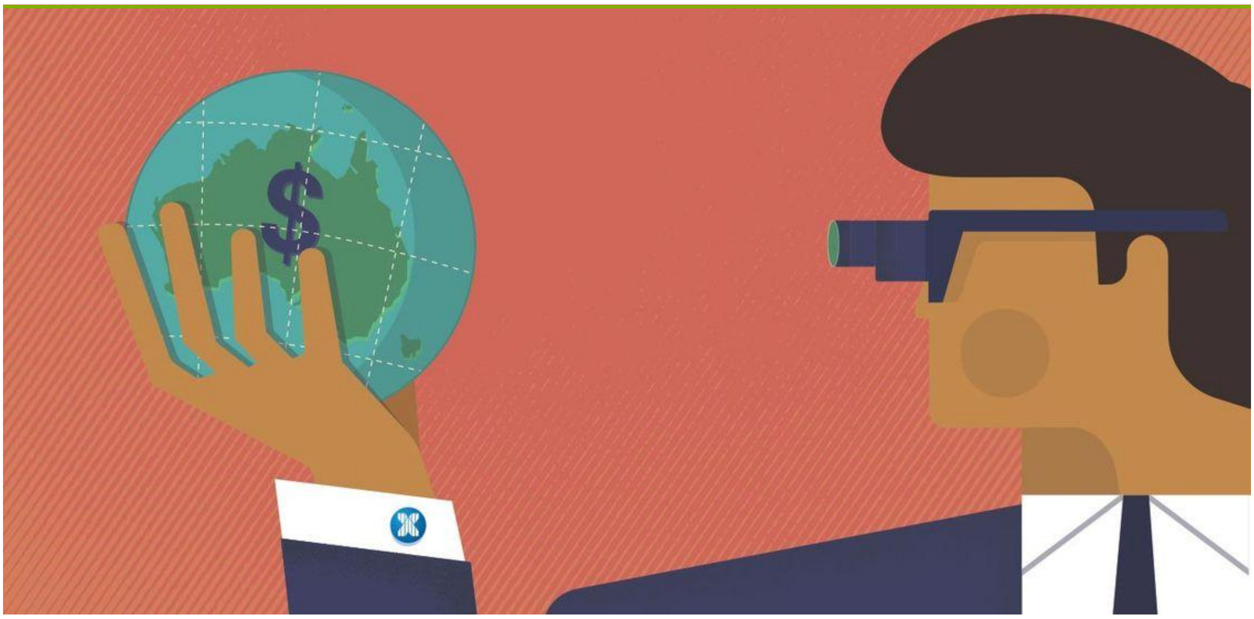

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Over the year to the end of June - the just completed Australian financial year - the average rise across the entire universe of ASX resource stocks was 37%. The top quartile cut in at plus 55%. The bottom quartile in the distribution of returns started at minus 25%. Just 32% of stocks produced positive returns.

The top 10 resource sector investment returns, averaging 891%, fell within a range of 440-2,300%.

The best-performing stocks displayed a strong energy storage and new technology theme. Seven of the 10 top-ranked companies claimed exposures to cobalt, lithium, vanadium or tungsten. Manganese, although primarily a steel industry input, was also caught up in the excitement over renewable energy and transport electrification.

Manganese miner and Asian smelter operator OM Holdings was unique in having a revenue history to back claims for a re-rating. Rising manganese prices helped OM double sales revenue in 2017 and post its first profit in seven years but did not prevent a downward share-price track after February.

Kogi Iron, also with an iron and steel connection, managed a fivefold share price rise by early January 2018 as it sought to integrate an iron ore deposit (586 million tonnes at 41.3% iron) in Agbaja with a wholly-owned cast steel plant in an effort to tap a burgeoning Nigerian domestic market.

In seeking to re-open the Century zinc mine in Queensland, New Century Resources was uniquely focussed on one of the traditional nonferrous metals. It saw its best returns by the end of November as it headed toward its first concentrate output in late 2018.

At the top of the performance list and a primary beneficiary of the year's dominant investment theme was Winmar Resources. A spectacular 2,300% share-price rise took a floundering A$1.5 million (US$1.1 million) market capitalisation to a still modest $58 million.

> **The share prices of all 10 of the top performing companies declined from their intra year peaks by an average of 28%**

Cobalt came to the rescue for Winmar after a joint venture breakdown in Spain forced the company to look for new endeavours with cash assets of just $347,000 at the end of 2017.

In March, Winmar announced that it had received capital subscription commitments for $3.1 million from investors to help fund the acquisition of cobalt-related investments in the Democratic Republic of the Congo. In late January, the company announced it had acquired a package of Canadian properties prospective for silver-cobalt mineralisation.

At the end of June, the company had stopped trading in its shares with the promise of a cobalt production joint venture, acquisition of new cobalt mining claims and a fresh capital infusion.

The Winmar performance encapsulates the lure that continues to attract risk-friendly investors to the sector. It is also a testament to strategic agility and the benefit of short investment memories. Can it ever produce cobalt? Who knows.

Other companies in the top 10 energised by the promise of cobalt included Jervois Mining, Australian Mines and Cobalt Blue Holdings.

Jervois Mining recorded a tenfold share-price gain in the first half of 2017/18 before losing more than 50%.

Jervois Mining directors said they would take "strategic holdings in promising resource projects with proven management capability" while pursuing development of a nickel-cobalt opportunity in New South Wales. They linked both tin and cobalt to the expected growth in the number of electric motor vehicles after taking a stake in aspiring Tasmanian tin producer Elementos.

When the ASX queried Australian Mines about why its share price had risen so significantly, directors drew attention to a disparity between the market value of their company and the value of another with a similar cobalt-nickel resource. The managing director referred to "arbitrage" between the two. ‘Herding' might have been a more apt description.

Cobalt Blue Holdings made gains after reporting results from tests on concentrate from its Thankaringa cobalt project near Broken Hill. A pre-feasibility study has prompted an accelerated loss in market value this month amid doubts about how the $60 million company can meet commitments for further studies let alone the $550 million project itself.

The King River Copper share price quadrupled over February-March before halving within two months as it and other companies with a vanadium exposure benefitted from the rush to the next big thing in batteries. Despite its name, King River Copper has been conducting test work on vanadium ore from its Speewah property in Western Australia.

Before switching attention to lithium brine, Dempsey Minerals had held an option to acquire oil exploration interests in Turkey and exploration assets around Greenbushes in Western Australia. In February, it announced an option to purchase mining tenements in Argentina adjacent to properties held by Galaxy Minerals and FMC, immediately improving its access to capital.

Tungsten Mining produced several periods of strong returns during the year before losing as much as 40% over the past two months. Heightened activity at its Mt Mulgine property in Western Australia occurred against a backdrop of a significant strengthening in global tungsten prices.

The unusually well financed company held cash assets of $15.9 million at the end of December 2017 after completing a $13.9 million capital raising to facilitate studies and progress toward meeting its aim of a production start before the end of 2018.

Despite initially dramatic gains and a range of differing circumstances, the share prices of all 10 of the top performing companies declined from their intra year peaks by an average of 28%, even as broader market indicators continued to push higher.
Momentum tracking latecomers will be regretting their choices. Even early investors can be unsettled. Disaffected Kogi Iron shareholders have sought to remove several directors.

The share-price patterns of the past year are consistent with a well established systemic bias against 'buy and hold' investing in the sector, the topic to which I will return next week.

Meanwhile, it is enough to note that stock selection is important but that consistently superior investment returns require knowing when to sell.

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