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Strategy swings end in tears

Corporate agility and adaptability, attributes much prized by management researchers, can easily look like strategic confusion and prematurely throwing in the towel.

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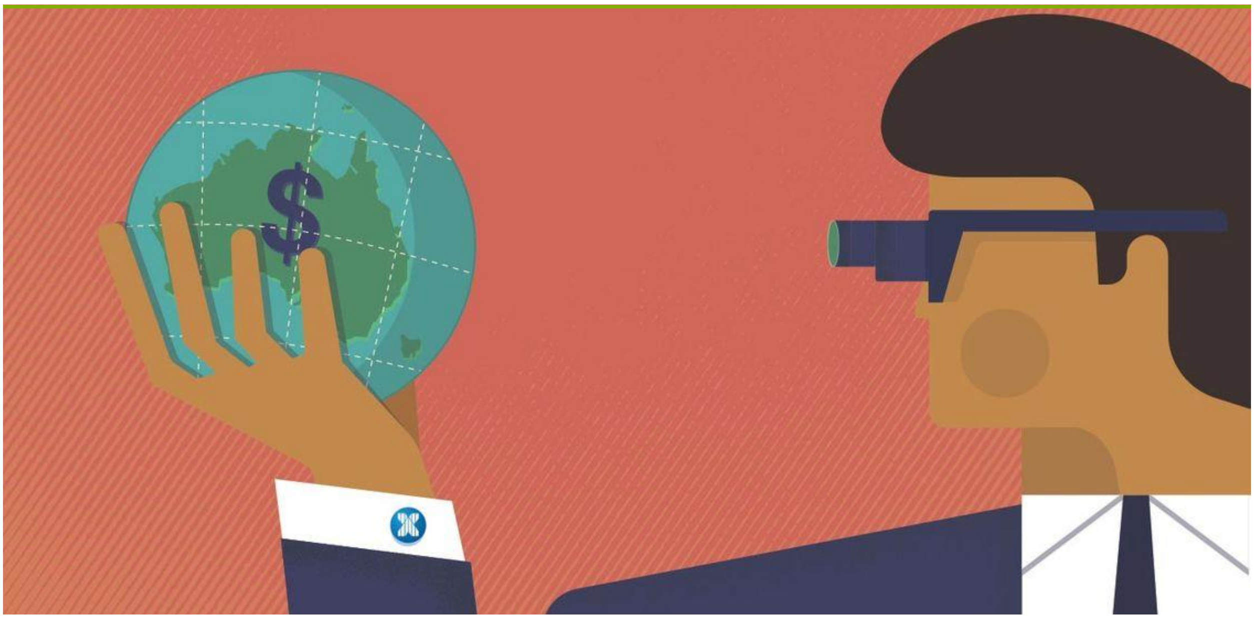

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New Energy Minerals and PepinNini Minerals are examples of junior mining companies coming unstuck after abandoning previously well articulated corporate strategies in favour of mistakenly surer routes to success.

After listing in 2002 under a different name and with an earlier management team, the company now known as New Energy Minerals bounced between base metals in Western Australia and Permian Basin oil and gas before looking for diamonds then graphite in Africa.

In October 2014, as Mustang Resources, the company acquired six exploration licences close to known graphite occurrences in Mozambique. Then, in February 2016, it backed away from the battery ingredient by acquiring tenements covering ground prospective for rubies, also in Mozambique and adjacent to existing ruby mining operations.

In 2017, the company's managing director was touting an innovative capital management model to attract investors. Shareholders would get the entirety of the net cash proceeds from ruby sales. The graphite interest would be spun out so as not to detract from the promise of outstanding investment returns.

By July 2018, the company's directors had decided that the luxury gem business was more complicated than they had imagined. They decided to sell the ruby interests. The name was changed to New Energy Minerals with graphite and vanadium becoming the commodities of choice.

A A$10 million price tag on the ruby assets helped mitigate some initial embarrassment. Four weeks ago, following two years of repeated delays and numerous variations in contract terms, the company announced that the sale of the ruby properties had finally been completed at a price of A$1.4 million.

Meanwhile, an October 2018 scoping study had placed a value of US$449 million on the Caula vanadium-graphite development with the first cash flows foreshadowed in the second half of 2019. A well-connected Chinese investor promising access to customers and capital was brought on board, taking a share in the project and the company.

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Last week, directors announced they had finalised the sale of the company's remaining interest in the Mozambique vanadium-graphite venture to the putative corporate saviour. Net proceeds were a meagre A$634,476.

In a surge of self delusional optimism, directors proclaimed that "the company will now seek to acquire a new project within the next six months".

Neither the transactions nor the promise of future project initiatives has done anything to close the gap between today's A$1.4 million market value and the A$119 million in October 2017 when heady expectations about the revenue from an initial ruby tender were pumped beyond reach.

New Energy Minerals conjures memories of Wile E. Coyote. Everything that can go wrong does go wrong for the hapless cartoon canine. The biggest disasters seemingly act as spurs for the delusional Loony Tunes character to dream up ever more elaborate plots with the same catastrophic results.

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The temptation to see easier routes to better investment outcomes is strong. Strategic leaps in the name of improving investment returns would be welcome if they could make a meaningfully positive difference. As the New Energy Minerals example shows, that is by no means assured.

Strategic ducking and weaving has been most noticeable among those companies infected with battery metal fever.

At the start of 2016, the then PepinNini Minerals had exploration interests in central Australia and Queensland. It also held exploration rights in Argentina over an area prospective for copper-gold mineralisation where no work had been done for several years.

In describing the company's ambitions, directors had emphasised a focus on precious metal and base metal projects.

In mid-2016, the company announced that it had applied for mining leases in Argentina over areas prospective for lithium brines. Throughout 2017 and 2018, news flow from lithium exploration activities overshadowed anything the company was doing in Australia.

PepinNini was surfing a highly favourable wave. The share price added 680% during the final four months of 2017. Shareholders approved a resolution to change the name of the company to PepinNini Lithium in October 2017, just to make the commitment clear.

By August 2018, the PepinNini share price had fallen below the levels which had prevailed prior to commencement of the lithium strategy. It has since continued to track lower.

In December 2019, the company announced that it would acquire eight new projects within 15 tenements in South Australia, "returning the company to a diversified explorer". By March, the deal had fallen through.

In April, the company announced another gold acquisition, this time near Cloncurry in Queensland. The Queensland deal was also ditched within a month or so but not before the company had optimistically outlined plans for mineral projects in Australia, including the proposed acquisition, to become its main focus in "this exciting new phase for the company".

After confirming the immediate suspension of the company's Argentine lithium venture on 15 July and with a market capitalisation now languishing around A$1.6 million, directors gave notice that they would seek to change the company's name back to PepinNini Minerals.

Occasionally, a strategic U-turn does pay off. Kidman Resources quit gold for lithium before being acquired by Wesfarmers last year. Pilbara Minerals zigzagged strategically for years before it, too, encountered lithium.

Metalicity once claimed that its primary focus was development of a pipeline of zinc projects, including the world's fourth largest undeveloped zinc resource in Western Australia. It has produced a 620% year to date return, having previously posted a 94% share price decline, following a pivot to gold.

Accidents do happen. More likely, strategic shifts in pursuit of greener pastures end up with ruined credibility, irritated shareholders and negligible improvement in investment performance.

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