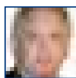
Savvy investors are everywhere

Compelling results and reliable delivery have almost universal appeal



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The Kaboko Mining Ltd chief executive is not the first one in his position to think about moving his company's stock-exchange listing from Australia to London. There is a temptation to see greener grass on the other side of the fence as companies shop around for more appreciative investors.

Being in one of the few genuinely global industries, miners have several choices for where they list their securities. Critical masses of companies can be found on the bourses of Canada, Australia and the UK. Familiarity is often the most compelling argument in favour of one or other of the exchanges. Ultimately, companies gravitate to where they feel capital can be raised most easily.

Kaboko Mining is developing a manganese production and export capability in Zambia. With high-grade direct shipping manganese visible at the surface, Kaboko confronted one of the industry's more straightforward operational challenges. It was able to start mining without defining a resource, so confident were the directors of the potential.

The investment rewards to this point, however, have belied the potential. The company's Africa-based chief executive Tokkas Van Heerden lamented in December that the company's A$3.5 million (US$3 million) market capitalisation was less than the value of the ore stockpile sitting at the mine site. He might be better off with a different investor base.

Van Heerden does not have any meaningful historical connection with Australian investors, which probably affects his thoughts on where to list the company. Arguably, a Zambian-based project is better suited to a European time zone. The London market also has a history of supporting African ventures, although Australian investors have sustained many over the years.

There are two issues here that need careful delineation. One is whether there is a value proposition being neglected by investors. The second is whether a London listing is more likely to draw out the investment attractiveness of Kaboko or any similarly situated mining company.

Kaboko has one feature in common with a large number of other companies in the sector, namely, a history of failing to meet deadlines. In October 2011, the company reported that open-pit mining activities had started. It was looking to finalise offtake agreements and associated financings "in the current quarter".

Is it better to list in New York, London or Sydney?

As it happened, an agreement with the Noble Group trading house was not completed until March 2013 and, according to company announcements, the first sale was only made in the following August. Due to underdeveloped logistics in the operating region, product movement has proven difficult and the company has yet to confirm that ore has physically reached its destination and, consequently, whether payment for its first shipment has been finalised.

While markets are supposed to be forward looking, they rarely ignore history. When Kaboko Mining foreshadows a monthly shipment rate today, investors inevitably look to the commitments made about shipping rates in 2011 and 2012 in deciding how much weight they should place on the promise.

It would be unfair to pick on Kaboko Mining as being somehow unusual. Wide disparities between promise and delivery have come to characterise much of the industry, which is being priced accordingly.

Over the three years since the cyclical peak in the resources market at the end of 2010, the Kaboko Mining share price declined 92%. This was by no means a return outlier. In a sector in which the median return over three years was minus 79%, over 200 Australian-listed companies suffered share-price losses of more than 90%.

Would Kaboko have avoided this predicament if its listing had been in London during this period? Measures of relative performance between the ASX and AIM, where the smaller miners reside, offer some guidance as to what might have happened.

The median annualised return among stocks currently listed on the ASX in the three years from the beginning of 2011 was a negative 42% (with a standard deviation of 26%). The results for the AIM market are remarkably similar. The median return among the AIM stocks was 42% (with a standard deviation of 25%).

There is some evidence of AIM stocks doing better in the rising market experienced in 2010. The Australian median stock gain was 7% while the median gain on a far smaller number of AIM listings was 51%. The 2010 AIM result mirrors more closely the outcome among the stocks currently in the Australian small resources stock price index. Their median return was 38%.

Across the cyclical upswing in 2010 and the downhill run through 2013, the median AIM stock lost 26% while the annualised median Australian stock loss was 31%. There was little movement in the exchange rate across this period to account for performance differences. The dispersion in London returns was at least as wide as in Australia. Some 35% of London stocks dropped 90% or more during 2011-2013 compared with just over 20% in Australia.

Some companies conclude that a dual listing might offer the best of both worlds, namely, one foot in a familiar home market such as Australia and another in closer proximity to larger capital pools in Europe or North America.

Unfortunately, the promised influx of investors created by a dual listing usually fails to materialise. Split listings also detract from liquidity. They often create two illiquid pools of stock that deter fund managers in both. Attracting research coverage is a third problem. Analysts retain doubts about covering stocks whose future domicile is uncertain or where company executives are ambivalent about where they regard home. Finally, attending to the needs of multiple markets takes up executive time and money.

There is nothing in the performance breakdown to suggest that the other man's grass is green enough to compensate for the costs of moving or keeping up multiple listings. Any company thinking of making the move would have to come up with some astoundingly compelling arguments to support what appears a wasteful management distraction encouraging a loss of focus on more fundamental sources of value. ▼

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