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Seven strategic objectives spell confusion

Legend Mining versus Maximus Resources is a choice between "expensive but highly focused" and "cheap but strategically fuzzy".

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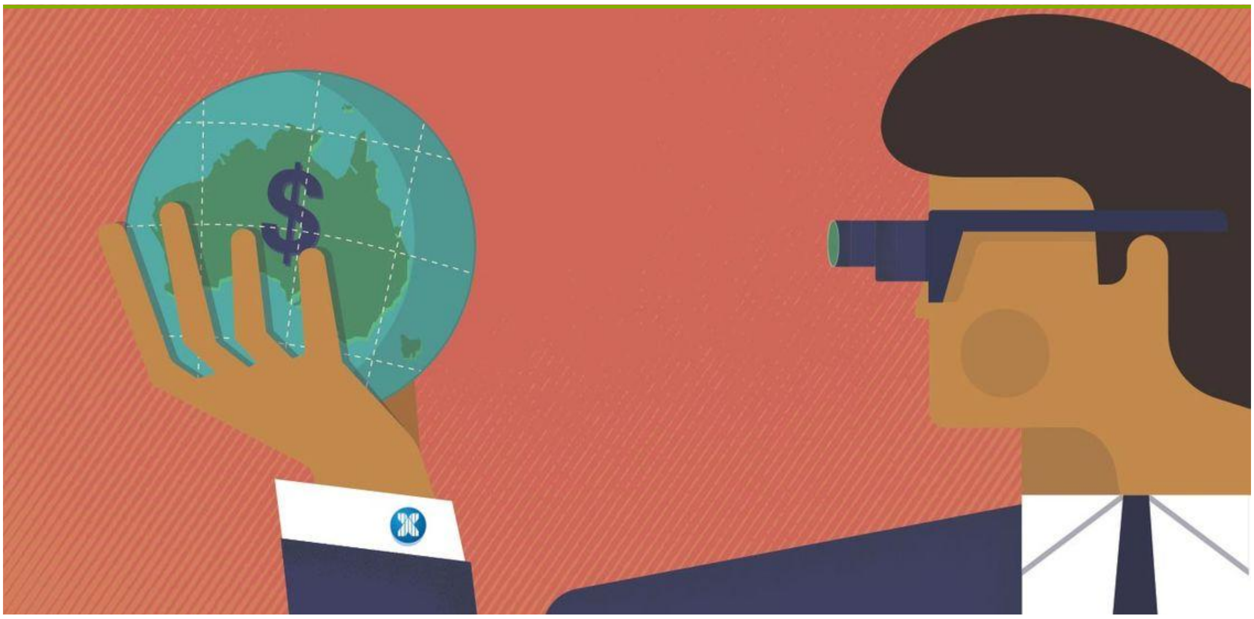

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Back-to-back presentations in late October by the two companies' chief executives portrayed noticeably contrasting views about the meaning and worth of strategic focus.

The Legend investment pitch revolves around its nickel-copper discovery potential in the Fraser Range region of Western Australia. Legend chief executive Mark Wilson speaks openly about replicating the 2012 Nova discovery which catapulted the market value of Sirius Resources from under A$10 million to A$1.1 billion within eight months.

Wilson characterised the company's sole interest in the Fraser Range, where it is spending at an annual rate of A$11-12 million, as unique among junior miners. Wilson has eschewed an early resource estimate or a swift dash to production in favour of "something big that is close" following a discovery of nickel-copper-cobalt mineralisation at the company's Mawson site in December 2019.

Wilson may fail to realise his lofty ambition but, unusually for an explorer, he has outlined a clear-cut investment proposition. He has told investors how much he intends to spend, where, when and the anticipated payback.

Immediately following the Legend presentation, newly appointed Maximus chief executive Tim Wither addressed investors. Wither described how Maximus has consolidated some 48 square kilometres of granted mining licences around the former Wattle Dam mine of Ramelius Resources, located 25 kilometres south of Kambalda.

Just 600 metres south of the Wattle Dam mine site is a 42,900oz gold resource, raising the possibility of a linking mineral structure between the two locations. Wither offered investors a clear strategic objective and a cogent investment thesis for a company with a A$20 million price tag.

Wither, a mining engineer, joined Maximus in August after changes were made to the composition of the board of the company. A new team of geologists was later appointed to help direct drilling priorities. A A$3 million capital raising in September signalled that serious work could commence.

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Sadly, by the end of Wither's presentation, the initial sense of focus had been lost. Other prospects within short distances of Wattle Dam were touted. A further five kilometres away another small resource has been targeted for extension drilling. Seven kilometres away is an even more modest resource with a mining licence to attract attention. Two kilometres away is a 7,700oz resource which requires further drilling. Nearly eight kilometres north of Wattle Dam are gold and nickel prospects. Wither cited 17 nickel targets in this "quite exciting opportunity".

Each, on its own, might have validity as the cornerstone of an exploration effort but, bunched together, the multiple opportunities needlessly raised questions about the allocation of priorities.

Wither finished his presentation citing seven different "strategic objectives". Wither has become a speedy convert to the apocryphal belief that the larger the number of strategic objectives the more compelling is the investment thesis.

It turned out, too, thanks to the conference moderator's questions that the land holdings underpinning the multidimensional Maximus strategy had a common provenance. One investor had moved them in and out of two earlier corporate entities unsuccessfully before trying again with Maximus. Unlike Legend, geology was not the principal strategy driver.

It might be a tad unfair to pick on Maximus. Dozens of other companies at a similar stage of development have far more complex antecedents and face more difficult decisions about where cash is spent.

It is not hard to find companies with two or three exploration or development properties on different continents with barely enough cash to manage six months of half-hearted effort.

In many instances, prospects are left untouched because of capital shortages. Even promising projects may fail to reach their potential because capital is spread too thinly. And, without a single success with which to whet the appetite of investors, further projects under the same umbrella stand a lowered chance of adequate funding.

At face value, a well funded, clearly articulated investment proposition based on a sturdy geological premise should always trump strategic fuzziness. Experienced investors will know that grand talk of multiple projects in diversified portfolios will probably come to nothing.

Legend's current market value of A$255 million dwarfs the A$19 million Maximus price tag. Legend has been well rewarded for its efforts so far.

That said, less well managed companies or even those with less impressive future discoveries could show stronger returns from time to time. In investment markets, history means little. What comes next is what drives share prices in one direction or another.

The August 27 From the Capital column suggested that Legend's best investment returns were probably in the past. Legend was being generously rewarded for its strong sense of purpose and for having sufficient funding to do the job. It was already being priced for success in an industry in which failure is closer to the norm.

The prospect of a slowing return momentum was no criticism. Ironically, weakening returns will always be the lot of a company which receives early investor endorsement for its future successes.

Since August, Legend investors have lost 40% of their capital value even as headline sector equity prices and the nickel price have climbed higher. Investors went looking for better returns elsewhere.

With an unchanged strategy and the same operational focus, a cheaper Legend now presents a stronger return option than at the time of the August column.

Maximus, after gaining as much as 80% since August and experiencing a sevenfold rise in price since mid-May, might now be past its investment prime and prone to its own loss of return momentum.

Price action complicates the choice. But Legend continues to offer the more clearly defined strategic path. That should always comfort investors more than an underfunded proliferation of strategic directions which invite confusion and doubt.

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