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Value steps get market recognition

Every day, dozens of mineral exploration and development stocks are posting double-digit share-price gains, even as the sector wallows around historically low valuations.

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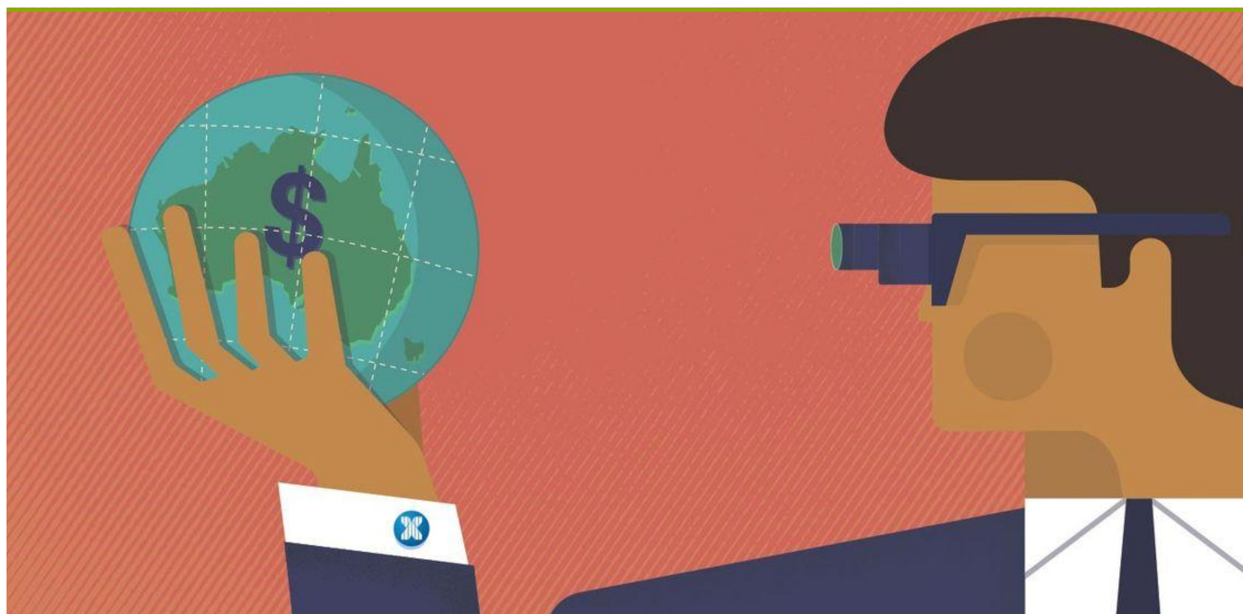

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Early last week, I counted 39 ASX-listed resources companies with double-digit percentage price gains. That is not an unusual occurrence. The number of double-digit moves last week averaged 46 per day. One hundred and seventy-five different companies posted price jumps of 10% or more on at least one day last week.

The 175 stocks making the largest gains finished last week at a median 50% premium to their lowest prices in the prior 12 months hinting, at least statistically, at the beginnings of a broad-based recovery.

In any other sector, similar returns would be grounds for celebration. In contrast, big gains at the bottom of the mining cycle come with relative ease and have little significance.

Nearly 400 ASX-listed resources stocks have share prices less than A5c (US3.3c). The median share price at the end of last week for the 175 companies referred to above was just 1.8c. And that was after their superior performances. Some 27 of these companies had share prices less than 0.5c.

A 20% move from 0.5c a share to 0.6c barely registers as a difference in a longer-term share-price history. It leaves a $3 million market capitalisation company still well short of $4 million.

After the gains made by last week's crop of double-digit resource-sector performers, the median stock was 8% below its 52-week average closing price and a full 55% under its price from five years ago.

Even modestly improved investor interest near historically low price levels can come with extraordinarily strong leverage but little meaningful shift from the bottom of the cycle. Prices remain anchored to historically low outcomes.

Week by week, getting on for several years, the best performing stocks in the sector have tended to be those benefitting from this short-term bottom of the cycle leverage rather than companies achieving a meaningful upturn in underlying value. The statistics show far more sizzle than steak.

> "**More time is needed to judge whether the recent improvement in the steak to sizzle ratio is merely an aberration**

Interestingly, my tracking of stock moves over the latter days of 2019 and the early days of 2020 has suggested an improving balance between steak and sizzle. Here are some examples of value driven steps underpinning superior investment returns from the past three months.

The initial rise in the share price of MRG Metals (+350%) dating from the beginning of November was precipitated by announcements about drilling results from the company's mineral sands interests in Mozambique.

Aeon Metals (+98%) announced it had received indicative funding offers that, it claimed, would be non-dilutive and capable of progressing a pre-feasibility study for a copper-cobalt project in northwest Queensland. The company also announced a resource estimate upgrade for the project.

African Energy Resources (+223%) announced it had agreements with buyers in Zambia and Zimbabwe for power generated at a proposed coal-fired power station in Botswana. The agreement will enable permitting to proceed. The company is positioning its coal resources as an energy source for a much needed expansion in regional electricity generation capacity.

Chesser Resources (+62%) reported the results of drilling at its Diamba Sud property in Senegal, which the company characterised as confirming a high-grade gold discovery.

Challenger Exploration (+156%) disclosed that it continued to log historical drilling data from a tenement in Ecuador prospective for gold-copper mineralisation where it could earn a 50% interest in exchange for funding five years of exploration activity. The improved market value for the company was a continuation of a trend dating from October when another company announced a discovery adjacent to the area of Challenger's exploration interest.

Titanium Sands (+128%) was seeking approval to acquire a Sri Lankan tenement package with an inferred heavy mineral sands resource adjacent to pre-existing exploration interests. The company announced that it had upgraded its previously disclosed resource.

Kalamazoo Resources (+124%) reported a high-grade gold intersection from one of four completed diamond drill holes at an exploration site near Castlemaine in Victoria. Adding to the upside impetus in mid-January, the company disclosed that Novo Resources and Eric Sprott had each subscribed capital.

De Grey Mining (+389%) reported high grade-gold mineralisation in two zones within its Pilbara exploration area in Western Australia.

Sky Metals (+171%) reported results from drilling over exploration areas west of Goulburn in New South Wales. The company is seeking to define gold mineralisation in an area in which historical drilling had been targeting base metal finds.

Moho Resources (+173%) reported assay results from a programme of drilling over exploration areas north of Kalgoorlie in Western Australia. The drill results will enable the company to proceed to estimating a JORC-compliant gold resource.

Elixir Energy (+163%) announced that it had intersected a coal seam of up to 51m wide while drilling for coal-bed methane occurrences in southern Mongolia.

Kin Mining (+110%) reported assays showing high grade zones of mineralisation, consistent with a large

mineralised system, at its Cardinia gold prospect northeast of Leonora in Western Australia.

Exploration can add value irrespective of equity market conditions and commodity fads. Conceptually, mineral exploration could be a diversifying asset class with an analytically sound portfolio role. Unfortunately, a tarnished reputation has left it characterised as the riskiest of risky investment spaces and largely ignored. Having some of the largest share-price movements appear unconnected to any value proposition also does nothing to improve the image.

More time is needed to judge whether the recent improvement in the steak to sizzle ratio is merely an aberration or, possibly, the product of wishful thinking.

If sustained, the incidence of exploration success could be improving or the market might be rewarding value creation more generously than it had been prepared to do for the past several years. Either of these latter two alternatives would be a welcome step in the rejuvenation of the sector's investment appeal.

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