

## Opinion

FROM THE CAPITAL

# Regis Resources simply too expensive

Gold company's investors got ahead of themselves, which would have been a good test for a skilled IR person

John Robertson

**R**egis Resources has been criticised for its lack of investor-relations personnel, but perhaps the share price has fallen because the company was simply too expensive. Sometimes, a company attracts too much attention and, priced to do the impossible, its investment fate is sealed.

*Mining Journal* (March 13, 'Regis still doing it its way, for now') recently reported on a change in production guidance from ASX-listed gold miner Regis Resources and the ensuing broker criticism of the way in which the company had been communicating with the market. One implication of the criticism was that a change in management style would confer a higher valuation.

In 2012, Regis Resources was producing gold at a rate of 100,000oz/y at one mine with the stated intention of ramping up annual output to 400,000oz by 2014 at its Duketon mining property in Western Australia. With a gold price around A\$1,580/oz and low costs, Regis seemed capable of generating cash flows better than A\$300 million (US\$234 million) a year. Even so, the market value at the time of A\$2.2 billion was a multiple of over seven times this amount for a development with an anticipated life of only up to seven years.

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There was something odd here. The company was being given credit for growth without evidence of a source. Investors seemed to have forgotten entirely about risk. And, if the price was to be believed, costs were never going to rise.

A company in this circumstance is living on an investment knife edge. Directors could say: 'Hey, this is crazy, we're not worth this much.' More likely, they will welcome the



**The pits ... a wet Moolart Well undergoing remedial work and dewatering, which cost Regis production, and more**

accolades from investors and market intermediaries with a vested interest in sustaining the bubble.

Detractors might call the company overvalued, but supporters will skirt round the fundamentals. They will refer to a premium for size, how the price is a testament to the track record of the directors and how the market value will enhance growth prospects from M&A.

At this point, the company will have become highly vulnerable to news of any sort. Even news consistent with what the company had been foreshadowing might be an opportunity for a rethink and not good enough to avert a negative price reaction. And so it has been with Regis Resources.

In early 2014, by which time the market value had already been pruned back to A\$1.2 billion, the company faced severe flooding at its Duketon property. Production, which had reached 72,000oz in the December quarter of 2013, fell to 64,200oz in the following three months. In May, the company forecast production in the upcoming financial year would recover to 305,000-355,000oz. Its guidance on costs showed they were on the rise. The market value promptly declined 38%.

Subsequently, and until earlier this month, the Regis Resources market value largely moved in parallel with the broader market, but danger still lurked. The company recently confirmed its previous production guidance, but said the most likely outcome was toward the bottom end at 309,000oz. That implied a production cut of 17% on the outcome in the already completed first half of the year. The company's share price dropped another 39% almost immediately, dragging the market value of the company down to A\$582 million.

As *Mining Journal* reported, one broker attributed the re-pricing to the absence of a full-time investor-relations role. The idea that

a specifically designated investor-relations person could lead the market in a different direction would be a neat solution. It would also conveniently divert attention from any conspicuously fanciful valuations that had underpinned earlier price expectations.

Logically, for an investor-relations revamp to make such a difference, the market would have to be misunderstanding something. Alternatively, investors must have been ignoring a profitable investment opportunity simply because they had not had the chance to talk to an investor-relations operative directly.

None of these arguments holds up. As an outsider looking in at the market disclosures from Regis Resources, there is no obvious reason to complain about the way in which it delivered information to the market.

Usually, a complaint is warranted if the flow of information appears unduly delayed, unrealistic or insufficiently detailed. Regis seems to be fulfilling its disclosure obligations in a timely and sufficiently thorough and workmanlike manner largely free from needless embellishment.

Regis passes the ultimate disclosure test, namely, whether analysts have been given enough information in a timely fashion from which to infer a realistic value for the assets of the company.

On my reckoning, Regis Resources is now more appropriately priced than it had been. Discounting the anticipated cash flows approximates the current market value of the company. Also, looked at in comparison with other companies in the sector, the current market value appears close to average. It is still not cheap.

Current investors may be disappointed that earlier rosy expectations have not been fulfilled, but there is little objective evidence to say investors should be upset at the current market value given the operational outcomes.

No investor-relations personnel could have averted the floodwaters. That is an investment risk investors and analysts who are free to set their own price limits need to consider. Of course, a skilled investor-relations practitioner might have modified some of the volatility. The test of skill would have come, not as the broker's remarks implied, by keeping the price aloft but in dampening it down in the first instance. Stamping on unreasonably high expectations remains a key test of skill for the investor-relations practitioner.

A large part of the recent Regis Resources market action arose from exaggerated valuations three years ago, not the absence of an investor-relations professional today panicking about how to sustain unrealistic prices. ▼