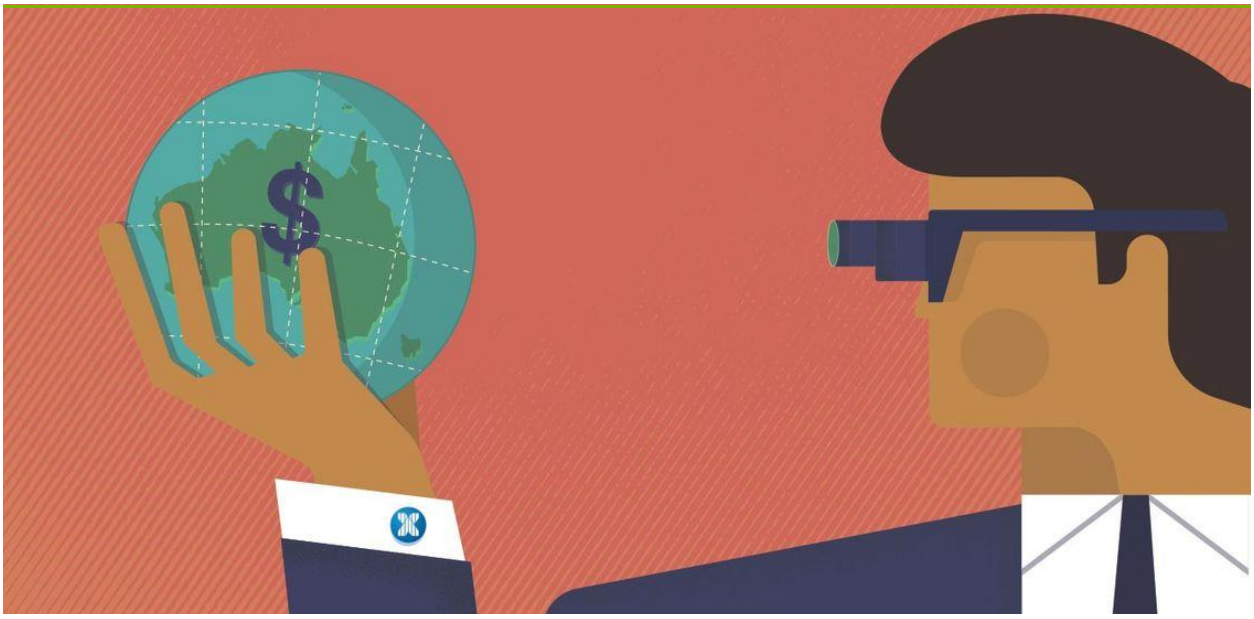
Mining Journal

Viewpoint > From-the-capital

TSX-ASX choice becoming moot

Australia and Canada-listed miners are searching for greener capital market pastures as disillusion about their investment prospects grows and alternative destinations for risk capital proliferate.

John Robertson*



28 November2019

Macarthur Minerals, already TSX-listed, is seeking to join the ASX in early December. Meanwhile, ASX-listed Metalicity has targeted Canadian investors as it, too, looks to rejuvenate a tired shareholder base.

Australian mining juniors have often looked to a Canadian listing as a doorway to a deeper pool of capital and sometimes more generous valuations. Now, companies from Canada, disillusioned at the lack of support there, are seeking to tap Australian investors.

Macarthur is primarily interested in developing the Lake Giles magnetite deposit in Western Australia, north of Koolyanobbing. A June 2019 preliminary economic assessment outlined a plan to invest A$466 million (US$315 million) for a A$2.6 billion return from sales of 82.8 million tonnes over 31 years. The company has a commitment from Glencore to take up to 4Mt a year of a 65-68% iron concentrate for 10 years.

The opportunity, with a flagged 2023 start, has had a decade-long gestation but progress was hastened by the mid-2018 retreat of Cleveland-Cliffs from Western Australia. Its departure opened up shipping capacity at the Esperance port for the newcomer.

As with other magnetite mining opportunities, the investment attraction hangs on a view that China needs higher quality feed to sustain a steel industry trying to cut back on harmful air pollutants.

By focussing on magnetite, Macarthur is trying to steer clear of a direct attack on the market of the haematite producing majors, though Fortescue Metals Group made a commitment to the Iron Bridge magnetite project, also in Western Australia, in April.

Macarthur's investment proposition has apparently fallen on deaf ears in Canada. As he sought out new Australian investors recently, chief executive Joe Phillips lamented the newfound preference of risk-friendly Canadians for cannabis and crypto-currency investments when allocating their capital. But for that, one could easily infer, he might have preferred to stay North American based rather than look to "the home of mining" for support.

> **“ Absence of a North American listing is often used as a convenient excuse by institutions outside Australia to sidestep an investment pitch**

Phillips' views were consistent with sentiments expressed by BDO global head of natural resources Sherif Andrawes earlier this year. Mining Journal reported Andrawes as saying "the evidence is compelling that risk capital has found a new home", as he commented on lost funding access for junior miners.

Blaming the reluctance to fund miners on enthusiasm for Canadian cannabis investments avoids an important question: Is the readiness of investors to embrace the cannabis craze simply the reaction to a shiny new toy distracting from more sensible and ultimately rewarding opportunities, or a welcome relief from perennially poor mining investment performance?

The frenzy over cannabis shows there is money to be had. Whether poor historical returns or unconvincing prospects or lack of contact with a new generation of investors is to blame, the industry is missing out on rapidly accumulating pools of capital in both Australia and Canada.

The fear of missing out is an important driver for those taking early positions in the cannabis investment market. With declining rates of mineral discovery and successful developments extending over multiple cycles, the fear of missing out is a fading emotion among mining investors. Without a similar incentive to act, listing location may be among the least important ingredients for success.

In any case, Australian investors are already less responsive to the blandishments of big talking project promoters, even without the distraction of cannabis legalisation.

Metalicity, whose market value has sunk to less than A$3 million, has found that listing location makes little difference to the enthusiasm for its offering. The company disclosed last week that a partial selldown of its stake in the Admiral Bay zinc deposit in Western Australia, touted as one of the world's largest, had failed. It had planned a C$25 million offering in a subsidiary to Canadian investors.

The planned TSX-V shift, while the rump of the ASX-listed company limped on to do other things, has been treated like the strategically confused grasp for survival it appeared to be.

Certainly, some North American institutional mandates have blocked shareholdings in ASX-listed companies but the extent to which Australian companies without a Canadian listing have lost funding opportunities is easily exaggerated.

The absence of a North American listing is often used as a convenient excuse by institutions outside Australia to sidestep an investment pitch. A plausible excuse is less contentious than an outright and seemingly ungracious ‘No'. It avoids a possibly confronting discussion about the real reasons for not wanting to invest.

Individual ASX-listed companies can attract the occasional investor or supportive intermediary who, without a dual listing, would not have bothered. The same might be said of Canadian companies looking to Australia. Such idiosyncratic experiences, often depending on personal relationships, are hard to generalise.

Drawing inferences from the experiences of Macarthur Minerals and Metalicity about the relative responsiveness of investors in Australia and Canada to mining opportunities and the potential value of multiple listings is complicated by their unique circumstances. But there are some ways to measure the worth of a dual listing.

To be a sustained success, a dual listing needs to demonstrate two outcomes. Over time, the quantity of stock traded in the second market should rise relative to turnover in the first. A shift in relative market importance would signal a growing acceptance of the newcomer and the evolution of a deepening liquidity pool.

A second test of success is whether the turnover in the two markets is uncorrelated. That would suggest investor interest in one which did not exist in the other and access to a different set of investment priorities.

My ‘From the Capital' column next week will apply these criteria to several Australian company examples to illustrate the extent to which ASX-listed companies have benefitted from or fallen short of the publicised market broadening gains from parallel listings.

**John Robertson is the chief investment strategist for PortfolioDirect, an Australia-based equity research and resource stock rating group. He has worked as a policy economist, business strategist and investment professional for nearly 30 years, after starting his career as a federal treasury economist in Canberra, Australia*