

Opinion

FROM THE CAPITAL

Hello, anyone home?

Explorers are failing to find investors interested in potential discoveries

John Robertson*

How to extract reward for successful effort will be one of the challenges for mineral explorers again in 2016. Even the most successful are failing to hold market gains as they battle for investor recognition.

Impact Minerals is establishing itself as one of the more successful among the current crop of Australian explorers. As reported in *Mining Journal*, Impact intersected 161g/t platinum, palladium, rhodium, and gold; 2.3% copper and 2.9% nickel across a 3.5m interval down-dip of historical workings at its Red Hill prospect in western New South Wales. The reported grades bettered earlier intersections of weathered rock and samples from the old mine. Down-hole electromagnetic conductors were also identified.

With the fresh results under its belt Impact's share price rose by more than 60%, pushing the market value of the company to A\$35 million (US\$25 million) after a \$7.3 million funding commitment from interests associated with Fortescue Metals Group founder Andrew Forrest.

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So, here was a company with results on the board, funded and backed by a respected group that had independently drawn a favourable conclusion about the ground Impact was targeting. The company is also run by a highly regarded explorer. Managing director Mike Jones comes out of Western Mining, where he was charged with project generation for a group noted for its exploration acumen.

After the initial flurry of investor interest, the Impact market price retraced its entire upward move to sit where it had been in the months before the October discovery and where it had been as long ago as 2012 and 2013.

Much work is still needed but there will have been little more that could have been done.



Markets left cold by even the clearest signs of exploration success

The underlying worth of the company is greater now than it had been. No doubt, Jones and his colleagues will have been disappointed by the lack of responsiveness.

The macroeconomic backdrop against which Impact and its peers are doing their work is a heavy burden. The sector as a whole is being continually re-priced to take account of revised global growth expectations and a rising cost of capital. Growing risk aversion has pushed mineral exploration well down the list of preferred investment exposures.

Reinforcing some of these pressures has been a shortage of exploration successes. So few targets have been hit that scepticism not only abounds but is the warranted default position for an investor.

Perceptions of value are also taking a toll on the ability of explorers to redefine new sustainable price points. With Impact's share price having sat between 2-4c for the best part of five years, investors are left with a strong temptation to sell in the event market prices reach or exceed the top end of such a historically long trading range. Sellers quickly reassert control in the event of any tendency to buck this history.

St George Mining is characterised by a similar set of circumstances. Its share price is also the same as it was four years ago. It started 7,000m of RC drilling in November to test promising geophysical exploration targets at its Windsor and Desert Dragon prospects in the Laverton region of Western Australia. These had been prized prospects among BHP Billiton geologists before head office pulled funding for nickel exploration.

The company has reported a series of results including a thick package of ultramafic rocks with distinctive “spinfex” textures from a hole at Windsor. Designed to test a strong geophysical conductor at a depth of 200m, the outcome was consistent with the type of

mineralisation sought. Coincident structure, favourable host rocks and trace nickel should encourage confidence about the exploration targeting skills of the company.

St George's large and growing number of mineral targets arising from a systematic exploration effort means the company can be construed as an unusually long-term exploration investment.

While not located on a defined belt, the style of mineralisation sought by the company is consistent with other systems including well known deposits at Kambalda, Forrestania and the Agnew-Wiluna nickel region. Systems of this type are rarely discovered from single point exploration holes from surface. Programmes of incremental drilling, consistent with the approach being followed, stepping out from defined geophysical anomalies or past drill results are proving successful.

On any objective reckoning, both Impact Minerals and St George Mining are worth more today than they were just a few months ago. In both cases, there is objective data showing an improved likelihood of the companies being in the right places.

Unfortunately, individual companies can do little to change the way markets react to what they are doing. Occasionally, companies may be lucky and, in quick order, lock in two or three high-quality intersections that unambiguously demonstrate a potentially sizable project. More usually, progress is far less dramatic.

This may be an especially galling prospect for those executives who had anticipated their personal wealth being leveraged to an enthusiastic market response for exploration success. Those rewards are not flowing.

Executives may also find it tougher to justify remuneration packages based on the increasingly false assumption that their actions can directly effect a sustained uplift in market values entitling them to a share of the gain.

Explorers like Impact and St George find themselves in highly invidious positions in having to rely on attitude changes over which they have little or no influence. If they are plainly unsuccessful in their endeavours, their market values are likely to decline, possibly precipitously. If, on the other hand, even creditable efforts are anything less than outstanding, investment rewards may prove negligible.

Executives may be best advised to eschew market-based rewards in preference to a salary for a job well done because how markets react may have little to do with the results they are achieving. ▼

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