Mining Journal

Indecent disclosure

Mining companies must follow detailed rules when describing the dimensions of their mineral resources but enjoy more creative freedom in the way they portray themselves to investors on other matters.

John Robertson* | 27 Sep 2017 | 16:54 | Opinion

The Pilgangoora success was more luck than a product of sound management

A recent presentation about the newly unveiled merger of Spitfire Materials and Aphrodite Gold highlighted inconsistencies in disclosure standards.

The companies' description of their corporate combination as offering "a vast and highly prospective exploration portfolio" might be tolerated as widely practised industry hyperbole.

The subsequent headline phrase in the media release referred in a more matter of fact manner to the combined company being "led by the highly successful management team which founded Pilbara Minerals".

In the dot points down the page, the release referred to "the highly skilled management team" which founded Pilbara Minerals. Overleaf, the statement drew attention to the new entity being led by "the highly skilled management team which founded the highly successful" Pilbara Minerals.

Related content

- Drilling at Mulwarrie indicates satellite potential
- Wolfden in Maine game
- Silver foxes like gold equities
- Twist in lithium story could come next
- Oxford's generation game

TOPICS (select for more information):

disclosure governance Pilgangoora Australia Indonesia Papua New Guinea Aphrodite Gold Pilbara Minerals Spitfire Materials

For those who may have missed the point, one of the claimed benefits of the merger came from adding to the board "the founding directors of Pilbara Minerals".

The invited inference was clear. Investors had a chance to repeat a historically superior operational and investment start-up attributable to two specific individuals.

So, it was reasonable to verify how an investment in Pilbara Minerals would have played out for an investor backing it at the outset of life as a listed entity.

> ***"Pilbara Minerals might not be the model investment painted by the Spitfire/Aphrodite publicists"***

Pilbara Minerals, as it is now known, was listed in September 2007 as Marginbet Limited. As the name implies, mining was not its intended purpose but an industry switch came with extraordinary speed. By December 2007, it was committing to a farm-in on a tenement in Western Australia.

By the start of 2009, rebadged as Fortuna Minerals, the company had an option over an Indonesian iron sands property. After starting to accumulate Pilbara region tenements prospective for base metals or gold, it adopted the Pilbara Minerals moniker later in the year. During 2010, it also headed off to Sulawesi attracted by a high-grade gold property.

By March 2011, the iron sands idea had been dropped because size, quality and access had all fallen short of what had been expected. The mundane work of exploring in the Pilbara was continuing but the company was looking enviously elsewhere. In January 2012, it was eying off base metals in South America and southern Africa for a viable business model.

Work in the Pilbara was restricted to desk studies during 2012 but the search for something better continued and, in October 2012, attention swung to a "major copper/gold project in PNG". This, according to the rationale presented at the time, would enable the company to reposition itself as a leading minerals explorer and developer focused on discovering world class gold deposits.

Directors remained on the lookout for new projects with a focus on base and precious metals, according to the 2013 annual report in September. Shortly after, in late October, the company announced it would become a tantalum miner.

Global Advanced Metals (GAM), which owned the Greenbushes and Wodgina tantalum projects in Western Australia, as well as being one of the leading refiners of the metal, was offering a five-year mining and offtake agreement at a fixed price at a site in the Pilbara called Tabba Tabba.

The deal required Pilbara Minerals to buy into a joint venture with Perth-based metallurgical consultants Nagrom, which would carry the bulk of the operational duties.

As a sustainable business model loomed larger, the Pilbara Minerals market capitalisation doubled but the number of shares outstanding had risen more than tenfold.

Although the company made much of having a five-year offtake agreement with GAM, Tabba Tabba itself had adequate reserves for only 18 months of production at the anticipated mining rate.

In April 2014, Pilbara Minerals disclosed an agreement with GAM to acquire the Pilgangoora prospect to the south of Tabba Tabba containing tin and tantalite deposits that had been worked intermittently since 1947 and which could give it a surer operating future.

As late as November 2014, directors were still pointing to production at Tabba Tabba commencing before the end of 2014. Faced with ensuing technical deficiencies, successive deadlines were missed, the partnership collapsed and the project was finally abandoned in early 2016.

Since then, Pilbara Minerals has used Pilgangoora's spodumene deposits to deftly transform itself into a pure lithium play, though it would be more accurate to say that lithium discovered Pilbara Minerals rather than the other way round.

Lithium craziness was the wind behind a near twentyfold Pilbara Minerals share price appreciation between May 2015 and May 2016 – an increase which subsequently more than halved but which had also followed a 98% share price loss.

A $100 investment at the founding of the company would today be worth just $53. And $100 invested in a 10-year Australian government bond, on the other hand, would be worth $162 today. The same amount in the S&P/ASX 200 would have grown to $136. An investment in market leader BHP would be worth $99. A holding in fellow Pilbara resident Fortescue Metals Group would have become $129. An investment in lithium producer Orocobre would have a $1,670 value.

A Pilbara Minerals shareholder would also have missed the opportunities, available through other investments, to recoup losses during cyclically strong periods in 2008 and, again, in 2010.

Pilbara Minerals might not be the model investment painted by the Spitfire/Aphrodite publicists if the outlook for investors is a peripatetic search for a strategy resulting in no more than 12 months of positive returns over the next 10 years.

And, it turns out, references to 'founding directors' have stretched the definition well beyond usual usage. One of the two Spitfire directors joined the board in 2013 and the other as recently as September 2015 – eight years after the company first listed – and after both had backed into the company their PNG gold assets about which nothing has since been heard.

**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*