

News flow push backfires

St George Mining chairman John Prineas has had a compelling A\$10 million (US\$7.69 million) incentive to find new shareholders but his efforts to build share price momentum with strong news flow have not gone to plan.

John Robertson* | 30 Jun 2017 | 7:40 | Feature



Despite superior positioning in Western Australia, St George's share price has been falling

St George Mining is one of Australia's most exciting exploration prospects. Drilling at its Mt Alexander tenements southwest of the Agnew nickel region in Western Australia has encountered numerous intersections of nickel-copper mineralisation over 3.5km of strike. At East Laverton, the company has gold and nickel sulphide targets first identified by BHP in 2012.

A majority stake in the Mt Alexander project was acquired from BHP in December 2015 after the big Australian had second thoughts about its nickel exposure and pulled the plug on its exploration efforts. BHP's departure left St George as manager and majority owner along with regional nickel producer Western Areas, which retains a 25% interest.

Despite superior positioning, the company's market price has shrunk by as much as 50% since the end of March and 25% during June. The share price fall has come even with company founder Prineas assiduously courting investors in Australia and overseas through face to face meetings, and a steady stream of favourable announcements to bolster interest in the company.

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Since May 2016, St George has made 78 ASX announcements talking about its exploration efforts, highlighting instances of favourable media coverage, promoting its latest corporate presentation or celebrating fresh research coverage. There were additional statutory reports.

Stock promoters are continually asserting share price appreciation among exploration companies is directly correlated with how frequently a company draws attention to itself.

At a rate of more than one announcement a week for more than a year, St George has been putting theories about the share price impact of news flow to the test.

The company has had a stronger incentive than many to engineer a higher share price during 2017. It could have raised as much as \$10 million from 47 million listed call options due to expire at the end of June. A share price of \$0.19 as recently as March put it frustratingly close to the \$0.20 exercise price.

The first meaningful share market reaction to its exploration efforts had come in 2012 with an eightfold share price appreciation before the initial excitement subsided.

Since then, exploration momentum has been running in its favour with mounting evidence of it being on the right track in its understanding of the mineral endowment at Mt Alexander.

At each subsequent successful exploration step, however, the positive market reaction has been less strong and the company has never regained its 2012 peak price.

This is no criticism of the company but simply an observation about the market dynamics at work.

Investors will normally react to new information that changes the way they think about an investment, but repetition of old news or even reinforcement of existing perceptions may be insufficient to induce fresh buying.

At the margin and in the absence of new information, some investors will search for swifter gains elsewhere.

Current market conditions do not help. The flow of new investors into the sector to shore up prices is limited by poor historical investment returns, falling discovery rates, weightier compliance obligations, unfavourable demographics and a structural shift to passive investing.

"Companies considering an option issue should avoid having them expire in the seasonally weakest part of the year"

Exploration stocks have underperformed the mining industry leaders. The PortfolioDirect share price index of 50 ASX-listed exploration stocks at a similar stage of development to St George is lower than 12 months ago, 15% down since the end of 2016 and 5% lower than at the end of May 2017.

As well as having to contend with adverse macro trends, Prineas' efforts to tap the capital raising potential of the options have been dented by seasonal market weakness.

ASX sector returns in June are especially weak as the country heads toward the end of its financial year and people begin tidying up their tax affairs.

Companies considering an option issue should avoid having them expire in the seasonally weakest part of the year. Far better to have them fall due in July or even late December when the Australian market for small resource stocks is more likely to be strengthening.

As the chance of getting over its \$0.20 share price hurdle has dimmed, the downward trajectory of the St George share price appears to have accelerated, lifting the need to eventually raise capital in a more conventional fashion. That is news even if the company has made no announcement.

St George is relatively well funded with \$5.6 million in the bank at the end of March 2017 but has been spending on exploration at a \$4.7 million a year rate in 2016/17. To do justice to its portfolio of targets, it was expected to outlay another \$1 million in the June quarter on exploration and corporate expenses.

Maintaining its current spending rate would leave it at risk of running out of money within 12 months. In reality, that is not going to happen. It will cut back, bring in a partner, tap shareholders again or discount shares for new investors. Shareholders, facing a rising risk of being diluted, are pricing the company accordingly.

Like many others in a similar predicament, St George has not been fully rewarded for the cumulative value created through efforts on its tenements.

The industry must take some blame for the market reaction. Company executives and those spruiking on their behalf constantly urge investors to judge them by the frequency of news flow, implicitly downplaying the quality of work as a marker of success. This is bad advice.

The cultural attachment to news flow has become a deeply ingrained and damaging trait in an industry increasingly focused on short-term outcomes.

News flow fatigue is the result. Proliferating assay reports begin to blur. Investors bristle at having to pore over repetitive presentations. Past a point, news and noise become indistinguishable encouraging investors to tune both out of their thoughts.

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