

FEATURE ARTICLE

Investors are responding to strengthening resource tailwinds.

Mining IPOs off the canvas on commodity price optimism

BY TONY FEATHERSTONE

Mining floats are roaring back to life. Listing volumes rebounded last year, and several explorers are set to list in the first quarter of 2018, capitalising on improving investor sentiment.

Thirty-six mining, energy or resource-service companies listed on the ASX last year, raising a combined \$446 million, *Australian Resources and Investment (AR&I)* analysis shows. That is the best result in at least five years, since the window for resource floats jammed shut.

Eleven resource floats more than doubled their issue price, and 10 companies were capitalised at over \$20 million upon listing. This is a remarkable turnaround: most resource floats, typically micro caps, have struggled to trade above their issue price in the past five years.

Tailwinds for resource floats are strengthening. The global economy is growing faster than expected, lifting expectations for higher commodity prices. In January, the International Monetary Fund (IMF) revised its global growth forecast from 3.7 per cent to 3.9 per cent for 2018 and 2019.

The Organisation for Economic Co-operation and Development (OECD) and the World Bank have noted improving economic momentum in the global economy, in what is a rare period of synchronised world growth. The IMF says that tax cuts in the United States are likely to further stimulate economic activity.

Asia, accounting for more than half of all world growth, is expected to grow 6.5 per cent over 2018–19, the same pace as last year. Fears of a slowdown in China had weighed on commodity prices, but

its economic growth was less volatile last year than the bears predicted.

That is good news for commodity prices and the resources sector. The Bloomberg Commodity Index hit an 11-month high in late January. A weaker US dollar, the passing of US corporate tax cuts and further signs of global growth were behind the rise.

Copper, long viewed as a barometer of global economic health, has rallied over the past few months. The price of copper relative to gold reached a three-year high in late 2017, according to Bloomberg – another sign that the bulls are overpowering the bears on commodity prices.

Market sentiment towards the resources sector is rising. On 23 January this year, *The Australian Financial Review* speculated that commodity prices may be in the early stages of a major bull market. Fund managers argued that commodities were as cheap (relative to US equities) as they were at historic turning points in the past.

Signs of higher commodity prices are encouraging junior Australian explorers to invest. Exploration expenditure in the September 2017 quarter increased by 16 per cent – the largest quarterly increase in three years – according to accounting firm BDO.

'This suggests [that] the increased investor appetite for exploration companies exhibited in the last quarter may be sustained,' wrote BDO, which also noted a sharp lift in estimated next-quarter cash outflows, suggesting that firms are positive on the outlook and exploring more.

As expectations of higher commodity prices encourage resources firms to

lift exploration, more capital will have to be raised via initial public offerings (IPOs) on the ASX. There is no shortage of potential IPO supply: many mining floats were mothballed during the resource sector downturn, and others had to abort their offer, such as the investor malaise.

The big unknown is investor demand. The IPO market typically attracts retail investors when equity prices are rising and volatility is falling.

That was true of equity markets for much of 2017 and into early 2018. The S&P/ASX 200 Index had a one-year total return (including dividends), or almost 12 per cent, to January 2018. Commentators mostly have predicted a solid, if not spectacular, year for Australian equities, which should support a reasonable IPO market.

Continued outperformance of the resources sector is the big hope for resources floats. The S&P ASX 300 Metals and Mining Index returned 21 per cent in 2017 – its best relative result in years. The performance gap widened in early 2018 as resource sentiment lifted.

Strong gains in small resources stocks, notably lithium explorers, should further spur mining floats. It is possible that speculators could show interest in resources floats at the expense of information, fintech and life-science floats, if the market follows previous patterns.

Taken together, these trends suggest an improving outlook for Australian mining floats in 2018. That does not mean IPO conditions are easy, that all resource floats will get away or that all smaller miners will attract support after listing; market conditions remain challenging.

A median capital raising of \$5.1 million in 2017 is a reminder that many resource floats are barely raising enough capital to last two years after listing. And a median market capitalisation of \$10.5 million reinforces that most resource floats remain speculative micro caps.

Still, there is enough to suggest that emerging resources companies

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with quality assets – and realistic price expectations – will find more investor support for their IPO this year, relative to the past five years, and that resource floats will finally be more prominent in IPO volumes.

Resource IPOs from 2017 reward investors

The strong performance of resource floats last year will further support demand for new listings in 2018. For all the gloom about mining IPOs, particularly in the first half of 2017, the collective performance after listing was remarkable; many mining floats soared.

The median return over the listing price was 39 per cent, AR&I analysis shows. IPO winners outnumbered losers by two to one in 2017. Simply put, investors who bought an equal amount of every mining IPO in 2017 achieved a return just over three times the broader market.

Ardea Resources, which is focused on cobalt exploration in Western Australia and New South Wales, increased its 20-cent issue price almost eightfold after listing in February 2017. Helped by strong exploration results, Ardea was 2017's top-performing mining float.

Alderan Resources, exploring for gold in Western Australia and New South Wales, soared 525 per cent from its June 2017 listing. For a time, the emerging miner was a rare 'tenbagger' IPO, having increased its 20-cent issue price more than tenfold at its 52-week high, before retreating in the fourth quarter.

Galena Mining, which is focused on the Abra base metals project in central Western Australia, delivered a 450 per cent return in five months from its September 2017 listing. Galena says Abra is one of the world's largest undeveloped lead deposits – a claim that is attracting more market attention after a series of strong drilling results in the past few months.

Cobalt Blue Holdings exemplified the strong performances from cobalt explorers. The company, exploring the promising Thackaringa project in western New South Wales, more than tripled its issue price, most of the gains coming in early December after reaching several large exploration targets.

Northern Cobalt has also performed strongly since listing, as has Marquee Resources, a Canada-focused cobalt explorer. Both stocks more than doubled their issue price after listing.

Elsewhere, Golden Mile Resources more than tripled its 20-cent issue price after a June 2017 listing. Golden Mile is developing projects in north-western Western Australia. The company's shares soared in November after news of several wide intercepts at its Quicksilver nickel discovery. According to Golden Mile, Quicksilver also has significant cobalt mineralisation. In construction materials and mining services, Wagners Holding Company, by far the year's largest resource-related float with a \$197-million capital raising, was up 41 per cent on its issue price less than two months after listing.

2018 mining IPO pipeline building

AR&I analysis identified seven resource companies seeking official admission to the ASX in January 2018, typically a quiet time for floats given the holiday season.

They included Accelerate Resources, a cobalt and gold explorer with projects in Tasmania and Western Australia, which sought \$5 million through an IPO.

BlackEarth Minerals, seeking \$6 million, was due to list as this story was finalised. BlackEarth has graphite projects in Western Australia and Madagascar, and Patersons Securities is the float's lead manager.

Other upcoming resource IPOs at the time of writing included Podium Minerals, Raptor Resources, Tao Commodities and China Track, a parts manufacturer for heavy construction equipment.

As always, there is no guarantee that these, or other resource floats, will proceed in 2018. Many resource floats over the past five years have had to extend their IPOs several times or withdraw their listing application, unable to raise the minimum subscription or secure enough investors to meet ASX Listing Rules.

That will be true of some resource floats this year, but the outlook is vastly better than two years ago, when few investors wanted to know mining IPOs. Although a long way from the boom IPO conditions we saw at the start of this decade, the resource floats pipeline is the best it has been in some years. 

Tony Featherstone is a former managing editor of *BRW*, *Shares* and *Personal Investor* magazines. The information in this article should not be considered personal advice. It has been prepared without considering your objectives, financial situation or needs. Before acting on information in this article, you should consider the appropriateness and accuracy of the information, regarding your objectives, financial situation and needs. Do further research of your own and/or seek personal financial advice from a licensed adviser before making any financial or investment decisions based on this article. All prices and analysis at time of print.

Resource IPOs in 2017

Company Name	ASX Code	Issue Price	Recent price*	Change over issue price %	Listing Date	Market capitalisation on listing \$m	Value raised \$m
ARDEA RESOURCES	ARL	\$0.20	\$1.57	685%	09-Feb-17	\$12.4	5.1
ALDERAN RESOURCES	ALB	\$0.20	\$1.25	525%	09-Jun-17	\$12.3	8.5
GALENA MINING	G1A	\$0.20	\$1.10	450%	07-Sep-17	\$6.5	6.0
OKAPI RESOURCES	OKR	\$0.20	\$0.82	310%	28-Sep-17	\$5.1	5.0
COBALT BLUE HOLDINGS	COB	\$0.20	\$0.75	275%	02-Feb-17	\$14.5	10.0
GOLDEN MILE RESOURCES	G88	\$0.20	\$0.61	205%	19-Jun-17	\$5.1	4.5
NORTHERN COBALT	N27	\$0.20	\$0.51	155%	22-Sep-17	\$4.8	4.2
MARQUEE RESOURCES	MQR	\$0.20	\$0.50	150%	15-Mar-17	\$3.5	3.5
BLACKSTONE MINERALS	BSX	\$0.20	\$0.50	150%	23-Jan-17	\$3.7	3.5
MAYUR RESOURCES	MRL	\$0.40	\$0.95	138%	21-Sep-17	\$27.0	15.5
MATADOR MINING	MZZ	\$0.20	\$0.39	95%	08-Mar-17	\$3.5	3.4
AMERICAN PACIFIC BORATE & LITHIUM	ABR	\$0.20	\$0.36	80%	28-Jul-17	\$16.7	15.0
STATE GAS	GAS	\$0.20	\$0.35	75%	10-Oct-17	\$5.9	5.3
FIRST COBALT CORP	FCC	\$0.70	\$1.18	69%	30-Nov-17	\$74.9	0.0
BIG RIVER INDUSTRIES	BRI	\$1.46	\$2.19	50%	01-May-17	\$76.8	17.0
WAGNERS HOLDING COMPANY	WGN	\$2.71	\$3.83	41%	08-Dec-17	\$437.3	196.8
CARAWINE RESOURCES	CWX	\$0.20	\$0.28	40%	14-Dec-17	\$10.5	7.0
TANDO RESOURCES	TNO	\$0.20	\$0.28	40%	03-Nov-17	\$4.8	4.5
KIRKLAND LAKE GOLD	KLA	\$15.30	\$21.30	39%	30-Nov-17	\$15.3	0.0
TNT MINES	TIN	\$0.20	\$0.25	25%	03-Nov-17	\$5.7	5.5
AIC RESOURCES	A1C	\$0.20	\$0.24	20%	01-Dec-17	\$11.3	10.0
METALSTECH	MTC	\$0.20	\$0.24	20%	24-Feb-17	\$5.1	4.3
NELSON RESOURCES	NES	\$0.20	\$0.23	15%	07-Dec-17	\$7.1	5.0
RIVERSGOLD	RGL	\$0.20	\$0.18	-10%	10-Oct-17	\$7.1	6.1
LUSTRUM MINERALS	LRM	\$0.20	\$0.17	-15%	15-Nov-17	\$5.5	5.0
DORIEBUS PLC	DOR	\$0.26	\$0.22	-15%	29-Sep-17	\$13.1	3.8
PYROLYX AG	PLX	\$1.47	\$1.10	-25%	16-Aug-17	\$103.7	35.3
KORE POTASH PLC	KP2	\$0.20	\$0.14	-30%	07-Nov-17	\$153.6	0.0
BRYAH RESOURCES	BYH	\$0.20	\$0.14	-30%	17-Oct-17	\$5.6	5.0
TODD RIVER RESOURCES	TRT	\$0.20	\$0.14	-30%	06-Apr-17	\$11.4	6.0
LITHIUM CONSOLIDATED MINERAL EXPLORATION	LI3	\$0.20	\$0.14	-30%	28-Mar-17	\$7.2	5.3
NUSANTARA RESOURCES	NUS	\$0.42	\$0.26	-38%	02-Aug-17	\$28.1	16.2
MAGMATIC RESOURCES	MAG	\$0.20	\$0.12	-40%	19-May-17	\$5.5	4.0
E2 METALS	E2M	\$0.20	\$0.12	-40%	19-Apr-17	\$10.6	6.1
KALAMAZOO RESOURCES	KZR	\$0.20	\$0.10	-50%	16-Jan-17	\$11.0	5.0
DAVENPORT RESOURCES	DAV	\$0.20	\$0.09	-55%	20-Jan-17	\$6.6	5.1
FREEHILL MINING	FHS	\$0.20	\$0.08	-60%	16-Jan-17	\$21.5	4.0
Median return over listing price				39%			
Median market capitalisation on listing (\$m)						\$10.5	
Median capital raising \$m							5.1