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HD **Australian junior miners optimistic on recovery despite continuous challenges**

BY Angela Kean

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ASX-listed **mining** and exploration companies at the junior end of the sector are becoming more optimistic that the bottom of the cycle may have passed and there are a number of indicators to suggest a pickup is on the cards, albeit a slow one.

At the launch of the 2014 Grant Thornton JUMEX report in Perth, Australia, on Oct. 8, Grant Thornton Australia **energy** and resources partner Holly Stiles told attendees that there have been early signs of improvement in the junior **mining** sector.

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The JUMEX report is compiled from the results of a survey of ASX-listed **mining** firms with a market capitalization of up to A$500 **million**, which accounts for about 755, or 35%, of the companies listed on the exchange.

Two-thirds of the 100 companies that responded to the survey are either experiencing improved investor interest or expect to see an improvement over the next 12 months. Meanwhile, 72% anticipate an increase in the price of their core commodity over the next year, compared to 56% in 2013.

Some also expect transaction values to improve, with 11% of respondents confident of stronger valuations on capital raisings and a diminishing need to significantly discount **equity** prices.

Stiles said that while **equity** challenges will continue in the 2015 financial year, there is perhaps a little bit of optimism about share prices. "That came up as the No. 2 issue for 2014 and it has dropped to No. 5 for this year," she said.

Patersons Securities' director of corporate finance, Michael Atkins, who is also chairman of Azumah Resources Ltd. and Legend **Mining** Ltd., pointed to the rising level of capital raised by Patersons during the third quarter as an indicator of a more confident approach to **equity** raisings.

"We've got, I think, a fairly positive start to the second half of 2014," he said. "Patersons would not have been as busy as we are at the moment with capital raisings for probably three years."

For the nine months to Sept. 30, the Australian stockbroker raised A$267 **million** for junior **mining** and exploration firms, which is just shy of 2x the A$135 **million** it raised in the first six months of 2014.

Atkins noted that there are a lot of small raisings of around A$1 **million** to A$1.5 **million** being done.

M&A set to rise

A further indicator that a potential recovery is close at hand is the number of companies seriously considering some type of transaction.

According to the report, 52% of juniors are considering a joint venture, 42% are considering the **acquisition** of a project and 16% are considering a takeover or corporate **acquisition**. Only 19% are not anticipating a major corporate transaction in the next 12 months.

"The third-highest priority for funds from the next fund-raising is acquisitions, after exploration and working capital, which suggests that JUMEX companies are actually now a little bit more serious about these transactions and there may be a little bit of an uptick in **M**&A activity," Stiles said.

Also highlighting increasing optimism is the fact that 68% of survey respondents have an exploration program planned for the 2015 financial year.

Policy issues still linger

Despite the repeal of the controversial carbon and **mining** taxes by the Australian government, regulatory issues are still anticipated to be the third-most significant constraint to business in the current financial year.

Western Australian Mines and Petroleum Minister Bill Marmion told attendees at the JUMEX report launch that with the recent change in federal government, there needs to be real reforms in regulation and not just a narrative which gives the impression of change.

"One such reform that is being touted is the one-stop shop and more work has to be done to ensure that this policy is delivered without cumbersome caveats and I'll be keeping an eye on that," he said.

"Reforms need to stimulate activity and remove barriers to investment; in other words, to encourage exploration and streamline approvals."

The Australian government's one-stop shop is aimed at creating a single environmental assessment and approval process for nationally protected matters as a means of simplifying and speeding up the approvals process. The government estimated the move would cut red and green tape, saving around A$1 **billion**.

However, as in the case of the move to scrap the **mining** and carbon taxes, the introduction of the reform has faced opposition from Palmer United Party, or PUP, senators, along with senators from the Australian Labor and Greens parties.

"How bizarre is it when the PUPs and the Greens collude to try and throw out a federal mandate to sign up each state and territory into the one-stop shop provisions after they've just had all the [memorandums of understanding] signed off at each state level," Association of **Mining** and Exploration Companies, or AMEC, CEO Simon Bennison said.

The federal government and AMEC are also still trying to get the exploration development incentive, or EDI, bill, which was introduced at the start of July, through the Senate.

"The detailed legislation, let alone the regulations, is far from on the table, and we've been working in current weeks with the Department of Treasury, [the Australian Taxation Office] and [Industry Minister] Ian Macfarlane's office to get this through," Bennison said. "No one's more frustrated than myself at the time it's taken.

"I can assure you we are still trying to advocate to make sure this gets through in the short term."

The EDI, which is capped at A$100 **million** over the next three years, is a refundable tax offset designed to encourage investment in greenfields exploration in Australia.

Bennison also expressed concern over the potential outcome of the royalty review currently underway by the Western Australian government.

The current royalty system applies a 7.5% rate for bulk materials crushed and screened, 5% for concentrates and 2.5% for metallic form.

Western Australia was one of the states that increased royalties when the minerals resource rent tax was introduced, but failed to lower them after the tax was scrapped.

In its review, the state government aims to examine the policy that revenue return from royalties is broadly equivalent to 10% of the total mine head value of the mineral, to examine the extent to which the current royalty rate's structure produces revenue that differs from the 10% benchmark, and to address any anomalies identified in the royalty structure.

"This is not the time and it's not the place in which to be putting additional costs on top of industry at the moment, and frankly, with all the economic modeling that AMEC has done, I believe there is very strong case as to why the status quo should be sustained," Bennison said. "I hope common sense prevails at the end of the day with this process."

However, despite the challenges that continue to face the Australian **mining** industry, Bennison remains confident juniors will prevail.

"I am more than confident that we are going to come out the other end," he said. "Sure, this is the correction, if you like, that **China** had to have. It's filtered through; the world economy is going through a tricky period, but to suggest that our industry won't be coming out through the worst of this in 2015 I think is nonsense."

While there is a glimmer of hope starting to emerge, Grant Thornton's Stiles cautioned that the recovery will be slow.

"I don't think anyone is expecting a dramatic pickup in investor interest, particularly for early stage projects," she said.

"Any pickup is going to be slow, it's going to be erratic and it's going to be selective."

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