Want investors? Do a better job!

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Paul Harris In New York

Ross Bhappu, partner and head of private equity funds at Resource Capital Funds (RCF), says the brief for miners wanting to attract investors is simple.

Do a better job.

Bhappu said an internal RCF study looked at 107 projects that went from feasibility study through to construction and "not one came in under budget".

"On average they were 38% over budget and the median was 28% over budget. We have to do a better job of building mines on time and on budget," he told delegates in his keynote speech at the 7th Current Trends in Mining Finance conference organized by the New York chapter of the Society for Mining, Metallurgy and Exploration.

Bhappu said the equity financing model had changed in the past five years and other was of investing had become more prevalent. "Institutional holdings in mining have fallen from US$500 billion in 2010 to half that level today.

"Since 2011, equity raisings have fallen of a cliff although the number of raises hasn't changed that much, but the dollars raised has fallen precipitately," he said.

Bhappu said this change was driven by the poor performance of commodities that had consistently underperformed since 2010. "When generalist investors look at where they can put their money they question why they should invest in commodities or commodity-based stocks," he said.

At the same time, he said some US$1.3 trillion had flown out of active investing and $1.6 trillion into passive investing, which meant there was a lot less money being managed for development-stage companies. Canadian institutional block trading had shrunk from 45% of equity trades in 2000 to 17% today.

"There is a massive shift to passive investing. Juniors cannot access this money and their path to liquidity has become challenging. The big block buyers don't exist or exist to a much smaller extent to invest in smaller projects," he said.

Despite this reality, Bhappu said there were reasons to be optimistic given how commodity inventory levels had depleted. "The days of inventory have almost halved since 2005 in copper, zinc, lead and nickel. Finally, there is some balance coming back to the sector. We see demand as fairly strong and supply reducing and good projects are getting financed," he said.

But to be able to take advantage of this would require a specific approach.

"Feasibility studies have to become more accurate. You need to build on time and on budget utlising financing strategies that work for the long-term, and be careful when drafting press releases and disclosure documents as they will be scanned by algorithm for key words for quant traders," he said.

He also said it was necessary for miners and developers to take ESG [environmental, social and governance] aspects seriously.

"The money we represent comes from university endowments, sovereign wealth funds and pension funds that are concerned about issues like global warming, so we do apply strong ESG requirements. We do take this seriously as our funding partners wouldn't trust us with their money if we didn't. You cannot be a miner today if you don't follow strong environmental guidelines," he said.