

AFR - Funding freeze as investors give explorers cold shoulder

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Australia's mineral and petroleum exploration sector is facing a major cash crunch as 43 per cent of explorers hold less than \$1m after the coronavirus froze the flow of funds into the high risk sector.

The rush of raisings that saw more than \$24 billion pumped into Australian corporates this year has not extended to explorers, whose cash inflows slumped by 48 per cent in the first three months of the year to a four-year low.

The funding freeze comes in addition to the hundreds of millions of dollars' worth of exploration spending cuts announced by established mining and energy producers since the pandemic took hold.

I am starting to wonder if the mums and dads who normally bet on sport are having a flutter on exploration stocks while sport is in hiatus.

— Kincora Copper president Sam Spring



The sun sets on Kincora Copper's drill rig near Trundle in NSW – Sam Spring

A single company was responsible for 19 per cent of all funds raised by explorers in the first three months of 2020, when FAR Limited raised \$157.1 million for its Senegalese oil and gas joint venture with Woodside.

Wide range

Of the 650 explorers listed on the ASX, just 12 of them were responsible for 57 per cent of funds raised in the period, with most raisings focused on the traditional safe haven metal, gold.

At the other end of the spectrum, 280 explorers (or 43 per cent) had less than \$1 million of cash at March 31.

More than 120 companies had less than \$500,000 of cash, suggesting that the sector is facing an imminent surge in equity raisings, corporate failures or both.

"Most of those companies are the smaller ones having trouble raising money at the moment, so that 43 per cent are the ones we are worried about," BDO's global head of natural resources Sherif Andrawes said.

The situation is exacerbated by the fact explorers cannot access the federal government's JobKeeper scheme. Explorers do not generate revenue and thus cannot demonstrate the decline in revenue required to access the scheme for employees.

The number of ASX-listed explorers has declined more than 25 per cent since 2013 and stood at 650 on March 31, with the sector shrinking in each of the past eight quarters.

Cash preservation mode

Despite slumping cash inflows, Mr Andrawes said explorers' spend on drilling had remained steady in the period at \$472.9 million – more than was spent in six of the previous eight quarters.

That suggests spending plans were advanced by the time the pandemic hit Australia, and Mr Andrawes said a small number of well-funded companies were covering for a growing number that were in cash preservation mode.

"BDO expects that exploration companies will fall into two categories over coming periods," he said.

"The first category will be those junior explorers in cash preservation mode through reducing corporate and administrative costs and scaling back on exploration activity in hope that they will survive through the turbulent COVID-19 environment.

"The second stream of companies will be larger explorers and developers with advanced-stage projects that will capitalise on the current market opportunity to perform strategic acquisitions, raise funds and accelerate exploration and development."

Kincora Copper president Sam Spring agreed that the sector was divided between "haves and have nots" and hopes his company's exploration project near Trundle in NSW can make Kincora one of those to thrive amid the downturn.

"We are still getting on with it despite the tough market," Spring, whose company had about \$3 million of cash at its last filing, said.

Genuine discoveries rewarded

Despite the tough environment, Mr Spring said exploration stocks making genuine discoveries were still receiving a good reception from investors.

He pointed to the recent rally in the share prices of Alkane Resources and Magmatic Resources, both of which are drilling for gold and base metals in western NSW.

"Raising money is really hard at the moment, but we have been very encouraged by the strong liquidity in some of the ASX-listed gold exploration stocks that are making good discoveries," he said.

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Kincora's Canada-listed shares have almost quadrupled in the past six weeks, while shares in Kincora's ASX-listed joint venture partner Rarex Limited have risen six-fold over the past two months.

Investor interest in NSW gold and base metals exploration enabled Magmatic to defy the industry trend and raise \$5 million in February, while fellow NSW explorer Sky Metals raised \$10.5 million.

Warrego Energy was in the process of raising \$15 million for its gas discovery north of Perth on Monday, while Papua New Guinea-focused gold explorer Kingston also went into a trading halt on Monday ahead of an equity raising attempt.