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The Mining Investment Experts

Weekly Commentary

20 June 2020 *On Friday's Close* Analyst : Warwick Grigor

A few thoughts on capital raisings

The markets made a good recovery during the week without any great drama. The capital raisings continued thick and fast as the juniors took advantage of the appetite for discounted issues. In many cases the companies took whatever they could get, which can be a cause for concern.

Quite a few of the charts show prices that have come back to the support line, including gold producers, and in some cases they have even breached support. The amber light is flashing on these as we try and figure out whether this is just a healthy pullback or whether it is the start of something more negative and longer lasting. The market is vulnerable to anything negative on the the big picture that may cause aggressive profit taking.

Shandong bids for Cardinal

Cardinal Resources' (CDV) share price jumped to a new high of 60¢ last week on news of the Shandong Gold bid, significantly higher than the 45.7¢ price proposed by Nord Gold recently. The bid values Cardinal at around $330m, but will it be successful? Will it fall foul of the increased scrutiny that the Federal Government is applying to deals involving Chinese buyers?

Cardinal has looked like the next big thing in gold sector for a while, with its 5.1 Moz Namdini deposit in Ghana. I'm sure that many companies will have run their ruler over the company in recent months, but will they step into the fray and overbid Shandong? If so, they will need to act quickly because the board of Cardinal has unanimously recommended Shandong's bid.

Observations regarding capital raisings

As we commented last week, the ducks have been quacking loudly and the companies and brokers have been happy to feed them as much as they can. In many cases the discounts have been 20% and more, which helps to get the issues away, but what are the implications?

Entitlement issues, options and leverage

Heavily discounted entitlement issues to shareholders should always be seen as kosher because directors are looking after existing members of the company. However, when the shortfall is placed, there is risk that outsiders get stock and it could be that these people are more interested in trading to lock in the profits rather than supporting the company. As much as brokers or the directors may try to place the shortfall into "sticky" hands, there will always be leakage. That means there is a period of digestion needed after the issues closes, before trading patterns get back to normal. Annoying it may be, but it is a fact of life.

Another factor that can put short term pressure on a stock price is the practice of attaching options. There will always be traders that take up the issue then sell the shares, not minding if they sell below the issue price, because they still have value in the options. That is sound logic up to a point, but consider that the value of the options is dependent upon the value of the shares. If the share price falls, there is downside leverage on the options.

Options have their maximum time value when they are first issued. This will shrink as the months pass by and they move closer to the expiry date, when the time value disappears. So, traders need to balance the leverage that options give them (to both rising and falling share prices) against the shrinking time value.

As far as leverage is concerned, this is only of benefit if the head share price goes higher. Genuine supporters of companies buy shares. They have vested interest in seeing the share price go higher, but they get very annoyed by traders who switch out of shares in order to build an option position. They see option-only holders as monkeys on their backs. Shareholders have to do the heavy lifting with the shares, while option holders can be likened to parasites that feed off other peoples endeavours. But many options expire worthless for a multitude of reasons. They are much higher risk than shares.

Perhaps a balanced approach of playing in both shares and options can get you the best outcome. Build an option position first, then buy shares. As the share price goes higher you get the leverage effect that options give you, but the options will never go seriously higher if people only ever buy options.

Personally, if I take an issue in a company that I want to support, especially in an IPO or similar raising, I am more inclined to sell the options when they have maximum time value, and reduce the average cost of the shares. That is risk management/minimisation.

Placements, especially when heavily discounted

Many of recent placements have been heavily discounted, sometimes by 20% or more. Who wouldn't take these up in a flash, when you can lock in such a short term gain. But, it only becomes a gain when the shares are sold.

Directors that allow such heavily discounted placements to brokers' clients are doing a disservice to their existing shareholder base in many cases, especially to the small non-s708 qualified shareholders who are forced to sit on the sideline and suffer heavy dilution while a random collection of traders get set well below the market.

The bigger the discount the more people want to take stock, which leads to overbidding and cutbacks. No-one really minds small cutbacks e.g. 10-30%, but everyone hates being cut back by 50-80%. Expectations of such heavy cutbacks encourages escalated bids in anticipation of cutbacks, but sometimes this can go pear-shaped.

The more you issue cheap stock to traders, the more difficult the issue will be to digest and the harder it will be to get the share price back up to the pre-placement levels. Existing shareholders again have to sit and watch while traders sell to lock in profits to which they have been denied access. I wonder who thought of the name "equity markets".

Upsizing of placements

Some of my clients hate upsizing of placements more than anything. Think supply and demand economics for a minute. If an issue of shares satisfies all of the demand, who is left to buy shares in the after-market? If the issue is heavily discounted - priced to clear - such that there is a conga line of placees who want to sell quickly to lock in their profits, the lack of subsequent demand can be a real problem. Why would anyone want to come into the market, after being denied access to cheap stock, just to assist others to lock in profits? The markets have never been that charitable.

A wise operator in the markets said on many occasions "*always keep them hungry*". It seems that this is not the modus operandi today. Brokers want to upsize as much as possible because it is just cream on the cake for them. Companies always need more money, so you can understand why they take what they can get. The economic logic is there but it is somewhat abrasive with respect to the longer term efficiency of markets.

It is a brokers job to generate demand for placements, that is correct, but they take a step too far when they engineer heavy oversubscription by inducing "shortages" caused by overbidding, especially when it is mostly price related. They certainly don't help a company build a supportive share registry; but maybe that is just a romantic desire noways.

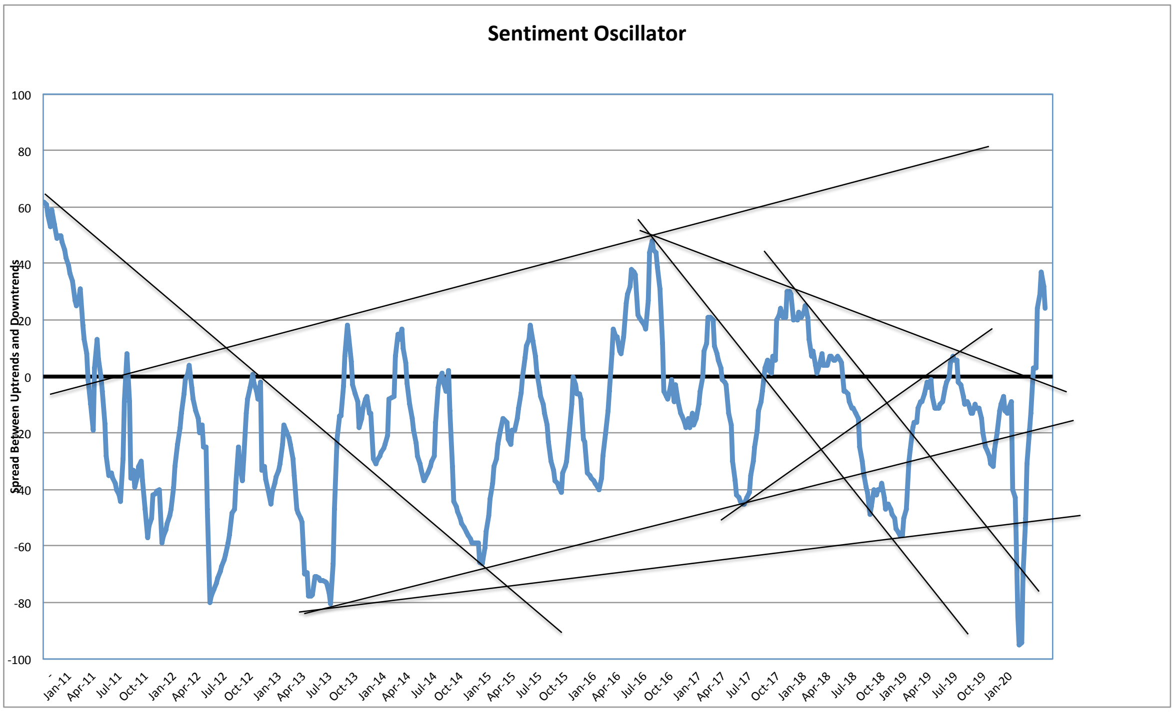
One of the most extreme examples of upscaling this time around was a company that went for $8m at about a 20% discount to the market, but ending up taking $18m.

Indigestion in markets and deal fatigue

We are already seeing the loss of momentum in junior mining stocks due to the money that is being sucked out and redirected into the new issues. Many of the recent uptrends are looking vulnerable as people cash in on recent profits to fund the new acquisitions. There is only so much money that is available so it has to keep circulating. The real concern now is whether momentum can be maintained, and if it can't, what will be the inflection point that crunches it lower.

Brokers will be happy because they have had a wonderful harvest of fees, companies (many but not all) will be happy because they are cashed up again and will continue to be able to pursue their quest for mineral riches (and pay wages) for another year or two, but many shareholders and investors will see their portfolios take haircuts.

Disclosure: Nil



Sentiment Oscillator: Sentiment turned down over the week with 48% (54%) of the charts in uptrend and 24% (22%) in downtrend on Friday's close. It is likely to deteriorate further.

Detailed Chart Comments

NB. Only the bold comments have been updated. Comments in grey type are from previous weeks and will be less relevant. Please note that this list is a cross section of the market. It IS NOT a list of recommendations.

Indices	Code		Trend Comment	
All Ordinaries	XAO		consolidating	
Metals and Mining	XMM		correcting from recent high	
Energy	XEJ		correcting	
Stocks	**Code**		**Trend Comment (updated comments in bold)**	**Main Interest**
Alpha HPA	A4N		sideways through support line	HPA
Adriatic Resources	ADT		slump	zinc
Aeon Metals	AML		beneath resistance line	copper + cobalt
Alkane Resources	ALK		on support line	gold, zirconia
Alicanto Minerals	AQI		breached uptrend	gold exploration
Allegiance Coal	AHQ		sideways	coal
Alliance Resources	AGS		testing uptrend	gold exploration
Apollo Consolidated	AOP		testing uptrend	gold exploration
Arafura Resources	ARU		down again	rare earths
Aurelia Metals	AMI		surge out of downtrend	gold + base metals
Australian Potash	APC		down	potash
Australian Mines	AUZ		base forming	cobalt/nickel
Australian Vanadium	AVL		new low	vanadium
BHP	BHP		correcting lower	diversified, iron ore
Base Resources	BSE		sideways through downtrend line	mineral sands
Bathurst Resources	BRL		down	coal
BBX Minerals	BBX		risen to hit resistance line	gold exploration
Beach Energy	BPT		breached uptrend	oil and gas
Beacon Mining	BCN		looking weaker	gold production
Bellevue Gold	BGL		new high	gold exploration
Blackstone Minerals	BSX		sideways	nickel
Breaker Resources	BRB		on support line	gold exploration
Broken Hill Prospecting	BPL		back to support line	minerals sands
Buru Energy	BRU		testing uptrend	oil
Buxton Resources	BUX		turned down at resistance line	nickel exploration
Capricorn Metals	CMM		rising again	gold
Cardinal Resources	CDV		surge on takeover bid	gold exploration
Cassini Resources	CZI		at highs	nickel/Cu expl.
Central Petroleum	CTP		shallower downtrend	oil/gas
Chalice Gold	CHN		ST downtrend	gold exploration
Chase Mining	CML		recaptured shallower uptrend	nickel/copper/PGE
Chesser Resources	CHZ		testing uptrend	gold exploration
Dacian Gold	DCN		collapse on recapitalisation	gold
Danakali	DNK		rising	potash
Davenport Resources	DAV		testing resistance line	potash

De Grey	DEG		new high	gold
E2 Metals	E2M		testing uptrend	gold exploration
Ecograf (was Kibaran)	EGR		surge higher but heavy pullback	graphite
Emerald Resource	EMR		breaching downtrend	gold
Evolution Mining	EVN		breached uptrend	gold
FAR	FAR		sideways	oil/gas
First Graphene	FGR		still in long term downtrend	graphene
Fortescue Metals	FMG		correcting lower	iron ore
Galaxy Resources	GXY		back to support line	lithium
Galena Mining	G1A		hitting secondary resistance	lead
Galilee Energy	GLL		rally through resistance line	oil and gas, CBM
Gold Road	GOR		correcting lower	gold
Graphex Mining	GPX		suspended since 25th March	graphite
Heron Resources	HRR		breaching downtrend	zinc
Highfield Resources	HFR		strong rise	potash
Hillgrove Resources	HGO		still in downtrend	copper
Iluka Resources	ILU		correcting lower	mineral sands
Image Resources	IMA		slump out of short term uptrend	mineral sands
Independence Group	IGO		Uptrend breached	gold, nickel
ioneer (was Global Geoscience)	INR		down	lithium
Ionic Rare Earths (Oro Verde)	IXR		breached downtrend	rare earths
Jervois Mining	JVR		looking weaker	nickel/cobalt
Jindalee Resources	JRL		still under resistance line	lithium
Kin Mining	KIN		correcting lower	gold
Kingston Resources	KSN		heading lower	gold
Kingwest Resources	KWR		down	gold
Legend Mining	LEG		correcting lower	nickel exploration
Lepidico	LPD		testing downtrend	lithium
Lindian Resources	LIN		back to lows	bauxite
Lithium Australia	LIT		recovered to hit resistance line	lithium
Lotus Resources	LOT		breached uptrend	uranium
Lucapa Diamond	LOM		new low	diamonds
Lynas Corp.	LYC		rising again	rare earths
Mako Gold	MKG		testing downtrend	gold exploration
Manhattan Corp	MHC		testing uptrend	gold exploration
Marmota	MEU		strong recovery	gold exploration
MetalsX	MLX		breached downtrend	tin, nickel
Metro Mining	MMI		testing downtrend	bauxite
Mincor Resources	MCR		surge to new high	gold
Musgrave Minerals	MGV		strongly higher	gold exploration
Myanmar Minerals	MYL		breached downtrend	zinc
Nelson Resources	NES		breached uptrend	gold exploration
Neometals	NMT		continuing down	lithium
Northern Minerals	NTU		new low	REE

Northern Star Res.	NST		correcting lower	gold
NTM Gold	NTM		rising again	gold exploration
Oceana Gold	OGC		on support line	gold
Oklo Resources	OKU		correcting towards trend line	gold expl.
Orecorp	ORR		rising	gold development
Orocobre	ORE		heavy correction	lithium
Oz Minerals	OZL		on trend line	copper
Pacific American Holdings	PAK		new low	coal
Pacifico Minerals	PMY		rising	silver/lead
Pantoro	PNR		sideways at highs	gold
Panoramic Res	PAN		down	gold , nickel
Peak Resources	PEK		back to lows	rare earths
Peel Mining	PEX		testing downtrend	copper
Peninsula Energy	PEN		down again	uranium
Pure Minerals	PM1		testing downtrend	nickel/cobalt/HPA
Pensana Metals	PM8		testing steep uptrend	rare earths
Perseus Mining	PRU		drifting within uptrend	gold
Pilbara Minerals	PLS		at apex of flag	lithium
PNX Metals	PNX		rising	gold, silver, zinc
Polarex	PXX		uptrend	polymetallic exploration
Ramelius Resources	RMS		on trend line	gold production
Real Energy	RLE		rising	gas
Red5	RED		rising, but approaching resistance line	gold
Red River Resources	RVR		broken through resistance line	zinc
Regis Resources	RRL		uptrend again	gold
Resolution Minerals	RML		heavy pullback	gold
Resolute Mining	RSG		rising	gold
RIO	RIO		rising	diversified, iron ore
Rumble Resources	RTR		rising	Gold exploration
Salt Lake Potash	SO4		rising	potash
Saracen Minerals	SAR		on trend line	gold
St Barbara	SBM		on trend line	gold
Sandfire Resources	SFR		on trend line	copper
Santos	STO		testing uptrend	oil/gas
Saturn Metals	STN		recapturing uptrend	gold exploration
Sheffield Resources	SFX		correcting within uptrend	mineral sands
Sky Metals	SKY		heavy correction	gold exploration
St George Mining	SGQ		at recent highs	nickel
Silex Systems	SLX		spike then pullback	uranium enrichment technology
Silver Mines	SVL		on trend line	silver
Sipa Resources	SRI		testing downtrend	general exploration - Ni,Cu, Co, Au
Stanmore Coal	SMR		down again	coal
Strandline Resources	STA		new high	mineral sands
Syrah Resources	SYR		breaching steepest downtrend	graphite

Talga Resources	TLG		rising	graphite
Technology Metals	TMT		rising	vanadium
Tesoro Resources	TSO		breaching uptrend	gold exploration
Titan Minerals	TTM		bouncing off support line	gold
Vango Mining	VAN		drifting lower	gold
Venturex	VXR		down again	zinc
Vimy Resources	VMY		heavy fall after placement	uranium
West African Resources	WAF		off its high	gold
Westgold Resources	WGX		down	gold
West Wits Mining	WWI		rising	gold
Western Areas	WSA		testing downtrend	nickel
Whitebark Energy	WBE		sideways	oil and gas
Whitehaven Coal	WHC		secondary downtrend	coal
Yandal Resources	YRL		rising	gold exploration
Zinc Mines of Ireland	ZMI		testing downtrend	zinc
Totals	48%	66	Uptrend	
	24%	33	Downtrend	
		138	Total	

Guides to Chart Interpretations

- Charts usually go pass from one trend (up or down) into the other via a period of indecision and uncertainty during which the trend can either recover or change. This period is signified by the orange colour. The orange represent both the greatest risk and greatest reward possibilities.
- Once a chart is in confirmed up or downtrends it is not uncommon for 10-20% of that trend to have already transpired.
- There are trends within trends. The focus of this chart review is the immediate trend that affects the sentiment i.e. it can be a downtrend within a long-term uptrend.
- Not every chart warrants a new comment every week. The new comments are in bold type. Grey type comments may be dated.
- Individual charts provide a single view. It is valuable to look at charts of other companies in similar commodities, and the overall sentiment is also very valuable. Not many stocks can swim against the tide.
- We periodically add or delete charts, some times for obscure reasons. If a chart consistent gives poor signals or is very erratic, we may delete it. Sometimes we add a chart because we want to see what all the fuss is about. We do have a preference for charting stocks that we cover in our research as well.
- Errors and omissions may occur from time to time, especially in fast moving markets.

Amber Lights in Tables: Just a reminder if when the amber light is used in the table – it is when the charts are ambiguous or when there is a change of trend taking place. If a chart is breaching a downtrend it can either be a positive sign or a trap. Only once it has done more work can it be confirmed as a new uptrend. Maybe it is a new uptrend (or conversely a new downtrend); the risk takers can decide to jump on board early (or sell). They will maximise their profits (or minimise their losses if indeed it is the start of the new uptrend (downtrend). More risk-averse investors should wait a little longer, being prepared to give up some of the gains in return for greater certainty.

Weightings of Sectors Represented in the Company Charts

Sector	No. of Companies	Weighting	
Gold	**30**	**21.7%**	
Gold Exploration	**22**	**15.9%**	
Oil/Gas	**8**	**5.8%**	
Nickel	**9**	**6.5%**	

Lithium	8	5.8%	
Coal	6	4.3%	
Zinc/Lead	10	7.2%	
Mineral Sands	6	4.3%	
Rare Earths	6	4.3%	
Potash/Phosphate	5	3.6%	
Copper	5	3.6%	
Cobalt	2	1.4%	
Graphite	4	2.9%	
Tin	1	0.7%	
Iron Ore	3	2.2%	
Uranium	3	2.2%	
Bauxite	3	2.2%	
Vanadium	1	0.7%	
Silver	3	2.2%	
Diamonds	1	0.7%	
Other	2		
Total	138		

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