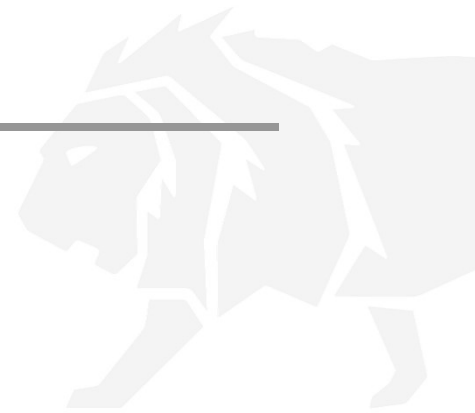

RECOVERY OF MINERS

AND

THE NEXT MINING BOOM



-
- 1. Timing: The Mining Cycle**
 - 2. Investing in Miners**
 - 3. Case Study: Gold**
-



Timing: The Mining Cycle

Operators and Owners

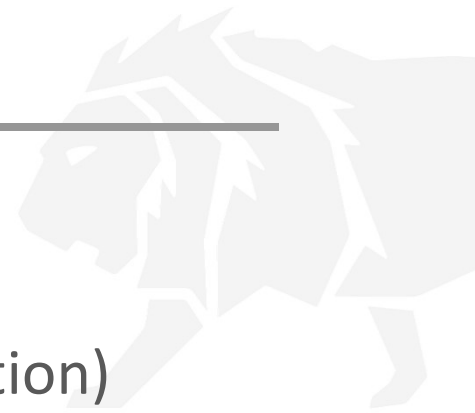
Miners

- Revenue Volatility (Commodity Prices)
- Finite Assets (Must constantly reinvest to maintain production)

Value of a miner can vary by a large amount over a short time frame

Investors

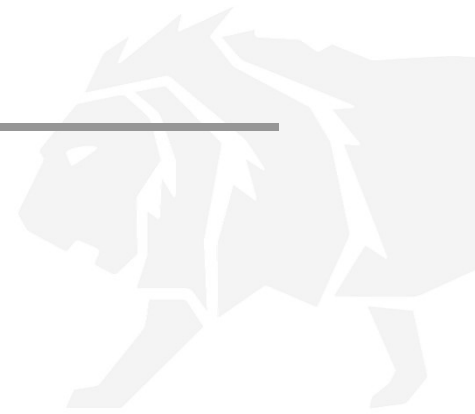
- Miners become a proxy for commodity or short term bet on exploration
 - Luxury: able to sell...
-



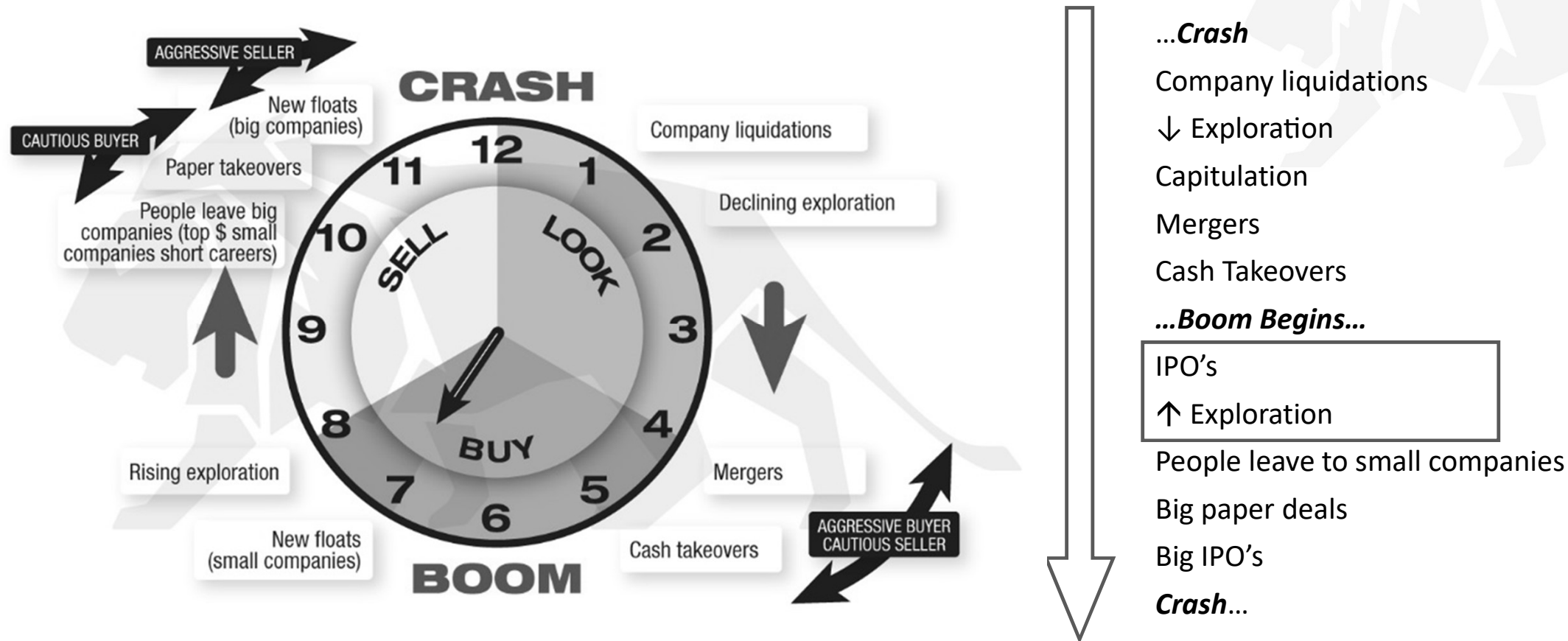
Mining Cycles



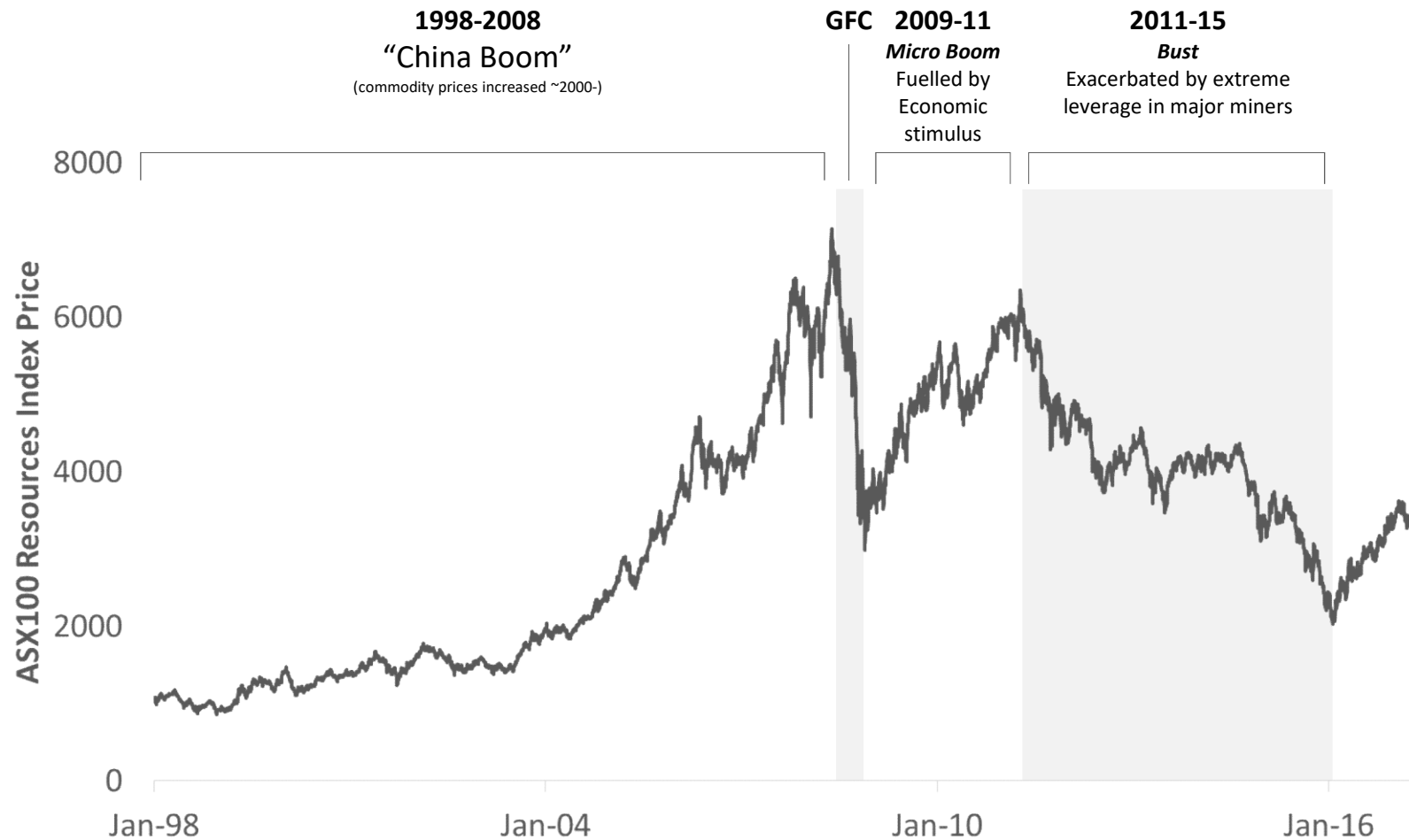
Like selling
ice creams...



Lion Clock – Early in a NEW BOOM



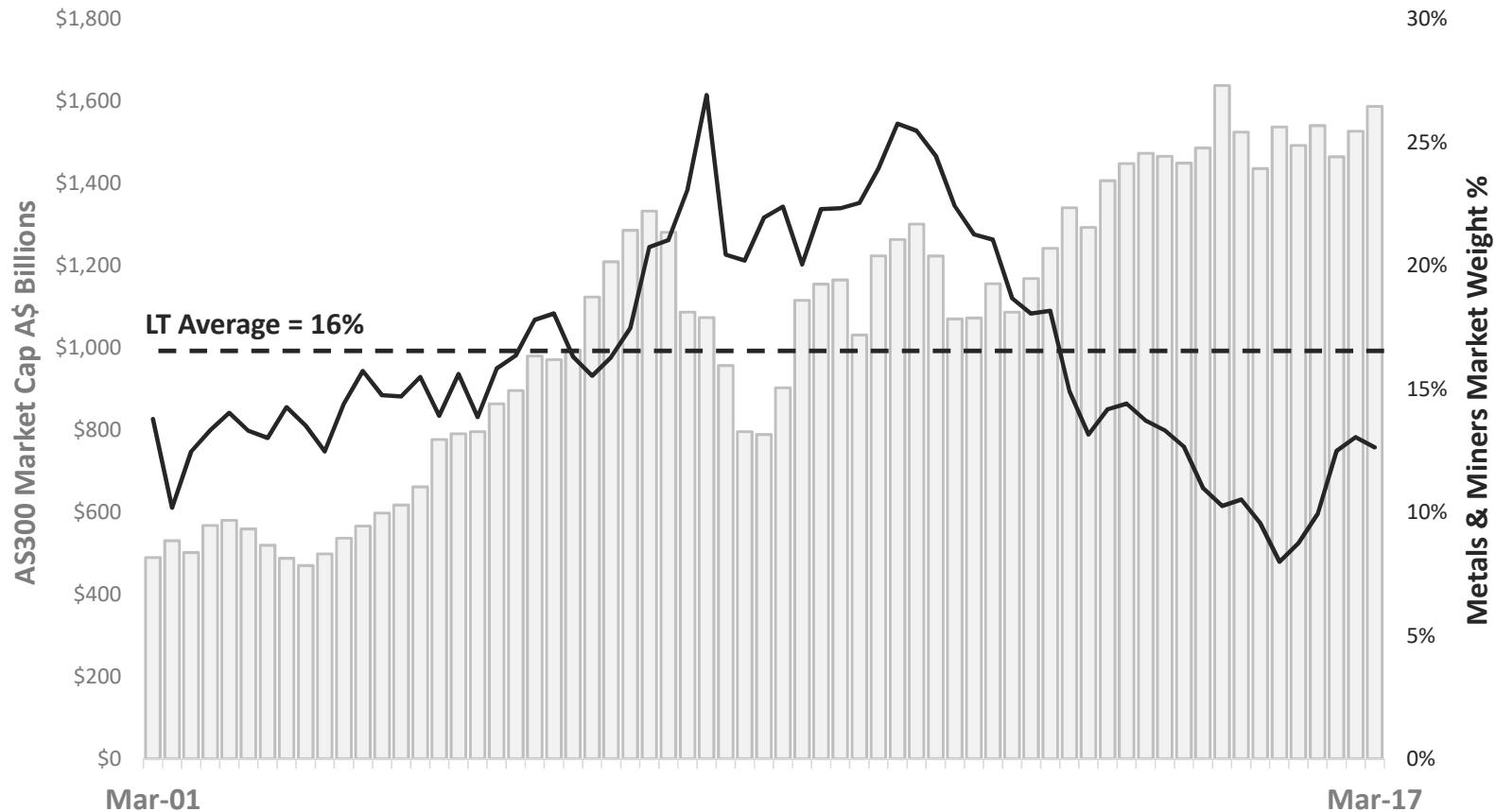
Anatomy of Boom and Bust – Recent Cycles



2016 – present

- New Mining Boom
- Uncharacteristic equity performance
- Resources 39.7% outperformed Industrials 4.1%
(Since 1 Jan 2016)

Miners market weight (% of ASX 300)



Miners severely
oversold in 2015
(led by Major Miners)

What to expect – this BOOM

Poor capital allocations by Major Miners

- Bought at the top
- Engineered oversupply

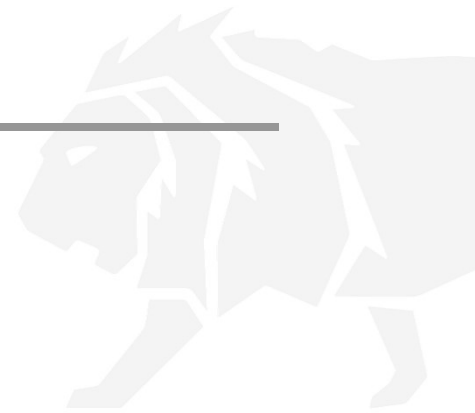
Balance sheet

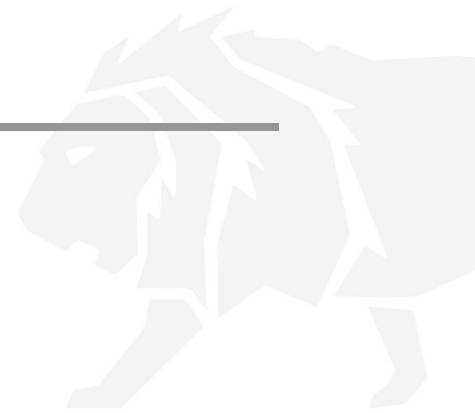
- Normally the hunters – had to sell projects in the bust !

Long Bust

- Future production pipeline depleted

Last boom: China demand / This boom: Depleted supply





Investing in Miners

Considerations

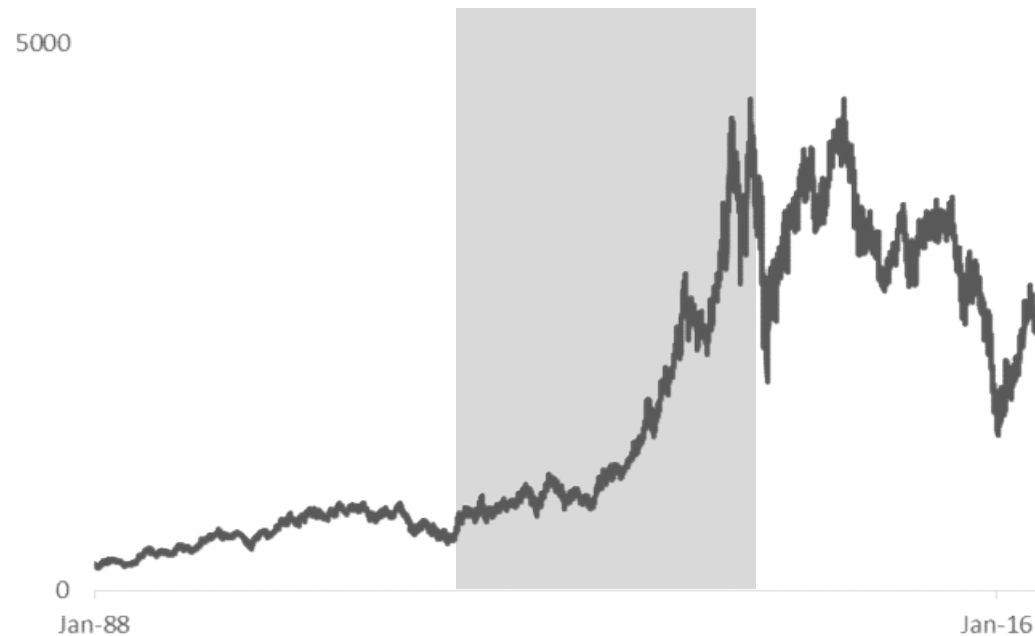
- Company size – commensurate with risk
 - Commodity exposure
 - Expected outcome ?
 - Punting on a Discovery ?
 - Long term sector exposure ?
 - Managing your risk – Portfolio
-



Size Matters

Global Major Miner

Eg. BHP, Rio Tinto



Return through a boom:

10.3x

Multiple

9.4 years

Timeframe

Benefits

- Producer – lowest cost
- Multi-mine / multi-commodity **portfolio**

Risks

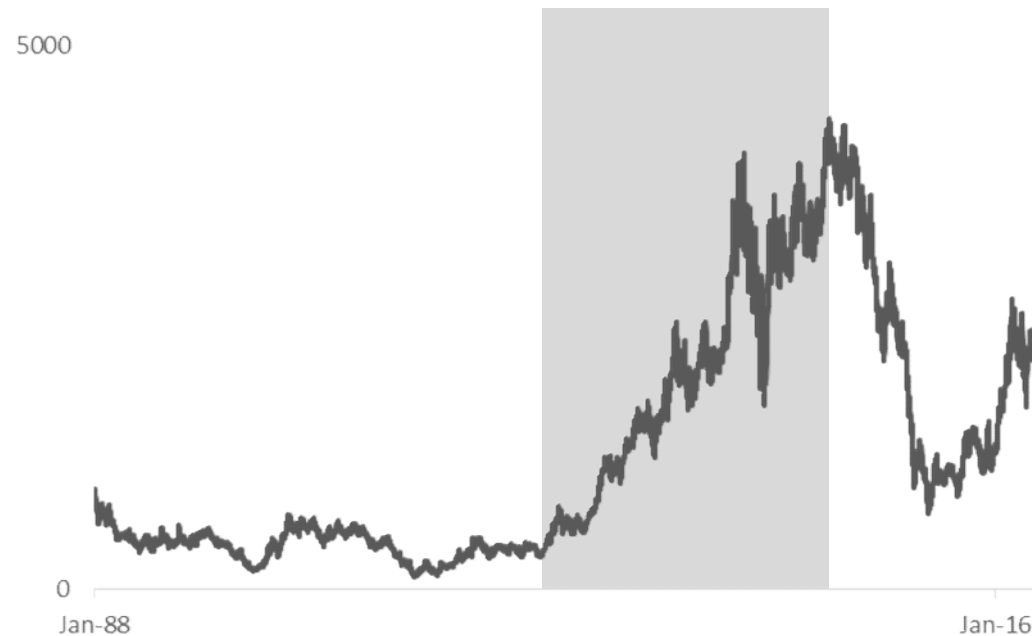
- Commodity price and currency risks (partially buffered within portfolio – diversity)
- Can **withstand** catastrophic failure of a project

Too big to grow ?

Size Matters

Global Mid Tier Miner

Eg. Newcrest, Fortescue, Northern Star, Evolution



Return through a boom:

12.5x

Multiple

6.4 years

Timeframe

Benefits

- Producer – low costs
- Multiple mines / revenue streams
- Often single or narrow commodity focus

Industry's new growth engine

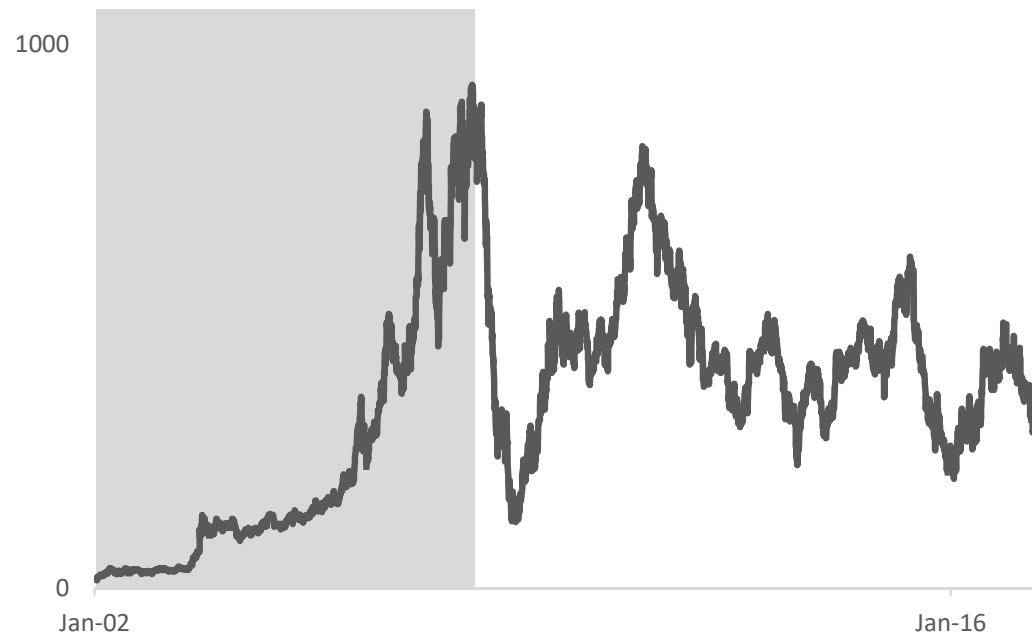
Risks

- Commodity price fluctuations and currency risks
- Can **survive** catastrophic failure of a project

Size Matters

Junior Miner

Eg. Independence Group, Saracen, Metals X, Regis



Source: IRESS Data

Return through a boom:

46x

Multiple

6.1 years

Timeframe

Benefits

- Mostly producers or large developers
- Usually single asset, or small asset portfolio
- Leverage to discovery

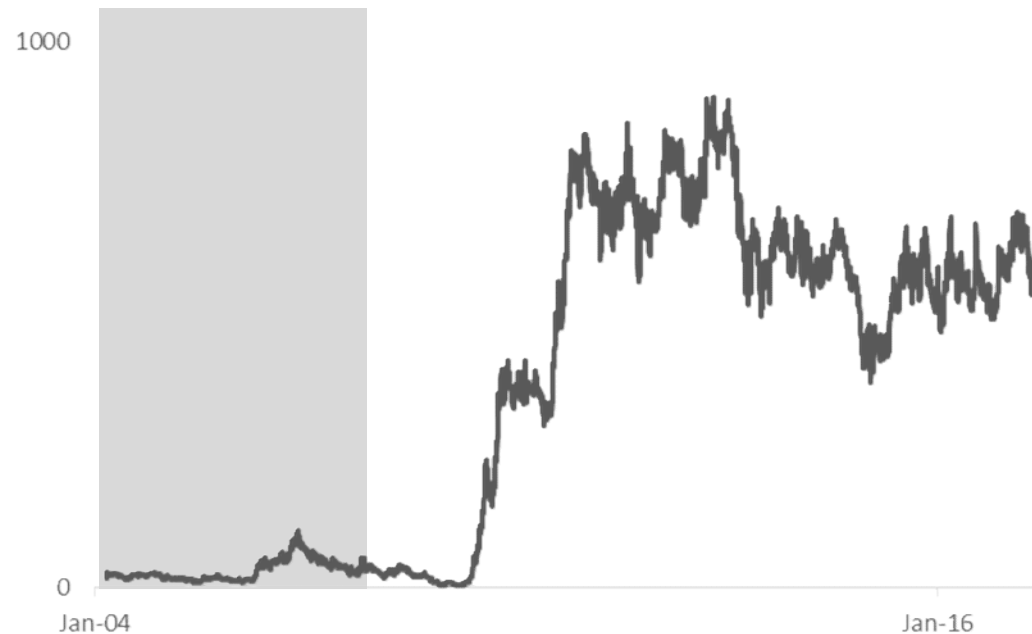
Risks

- Commodity price risk, as costs rarely lowest in class
- Project failure or stumble – catastrophic for company
- Ongoing liquidity / funding
- Short project lives – have to discover or acquire
- Usually too small to explore – has to be lucky

Size Matters

Micro-Cap Miner / Explorer

There are thousands of them



Return through a boom:

105x

Multiple

3.8 years

Timeframe

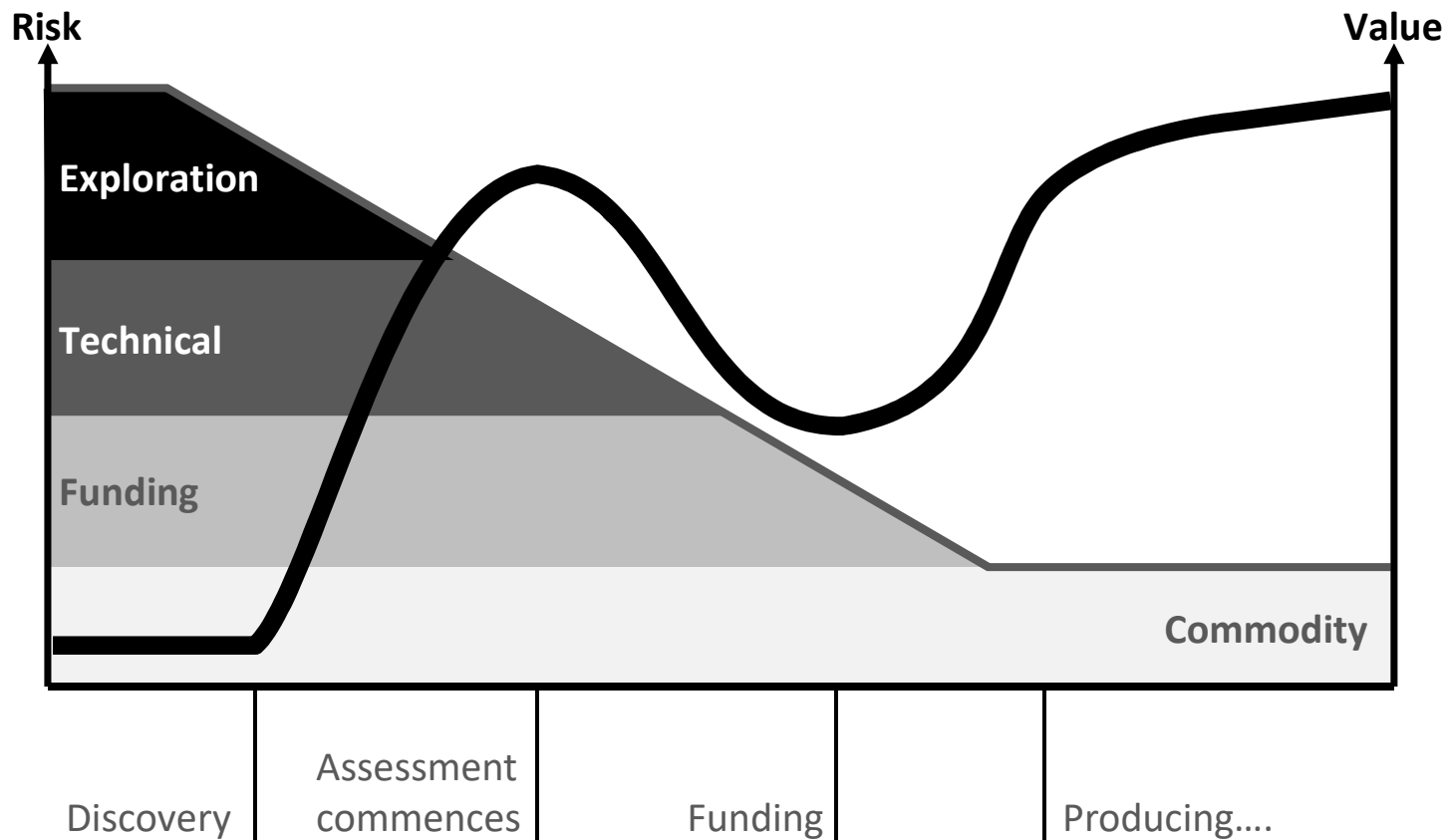
Benefits

- Extreme leverage to success
- Re-rating possible out of synch with boom

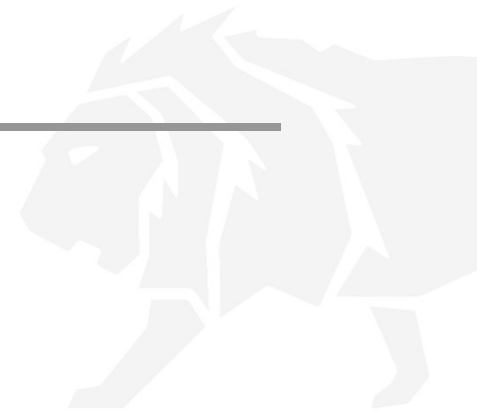
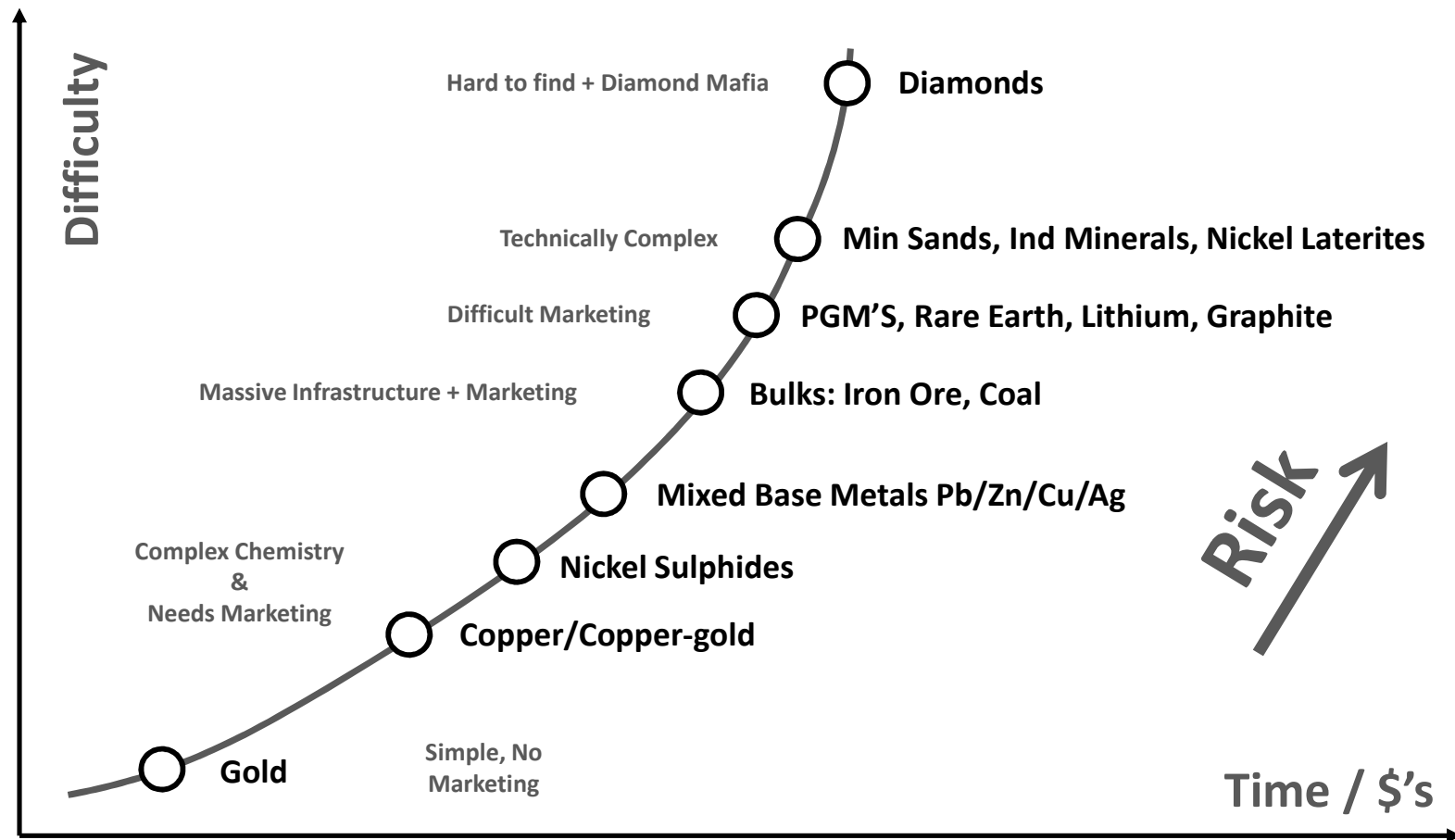
Risks

- Highly sensitive to technical results
- Funding – needs to be raised from market
- Illiquid
- People, People, People

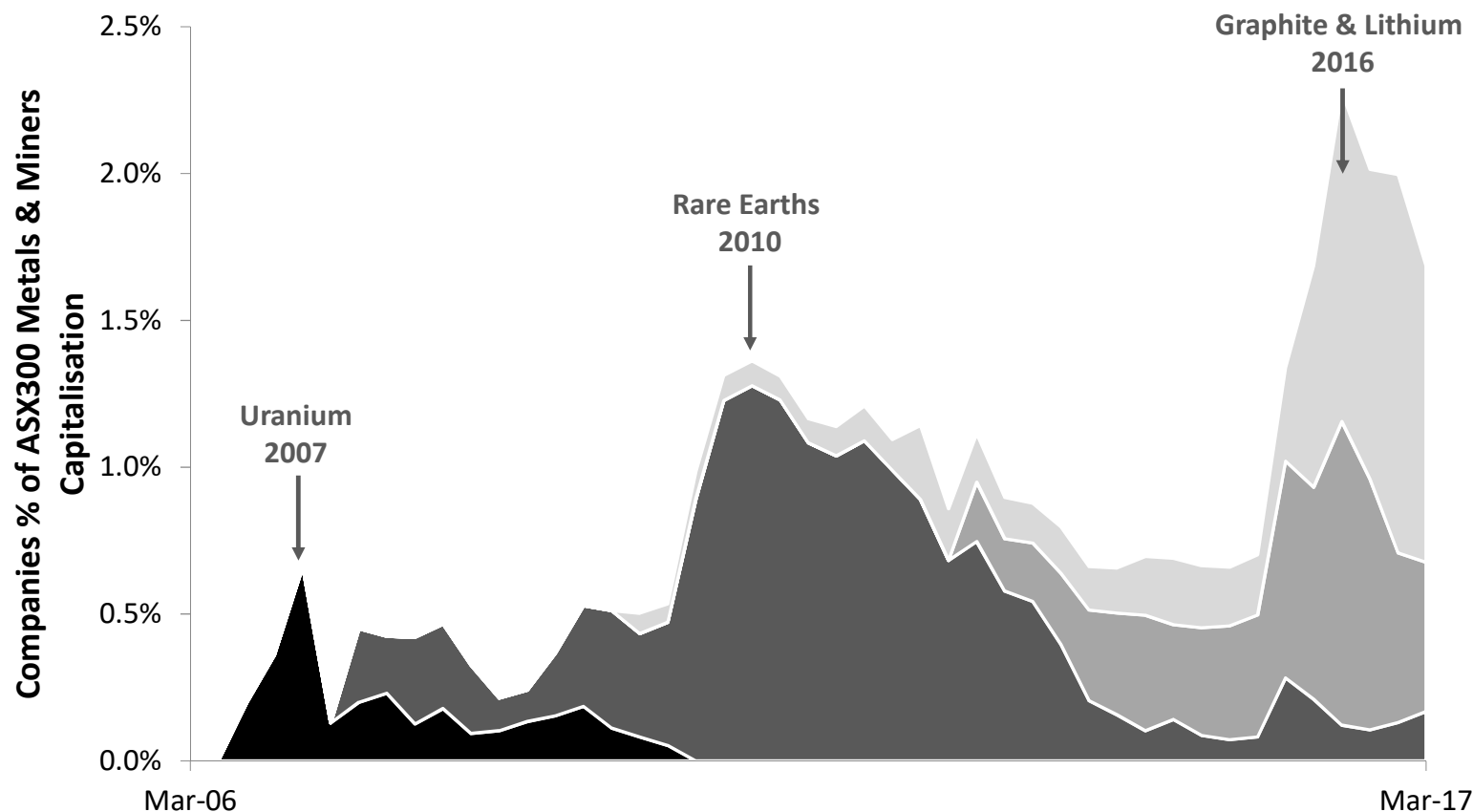
Junior & Micro Cap Miners – Value Evolution



Commodity degree of difficulty

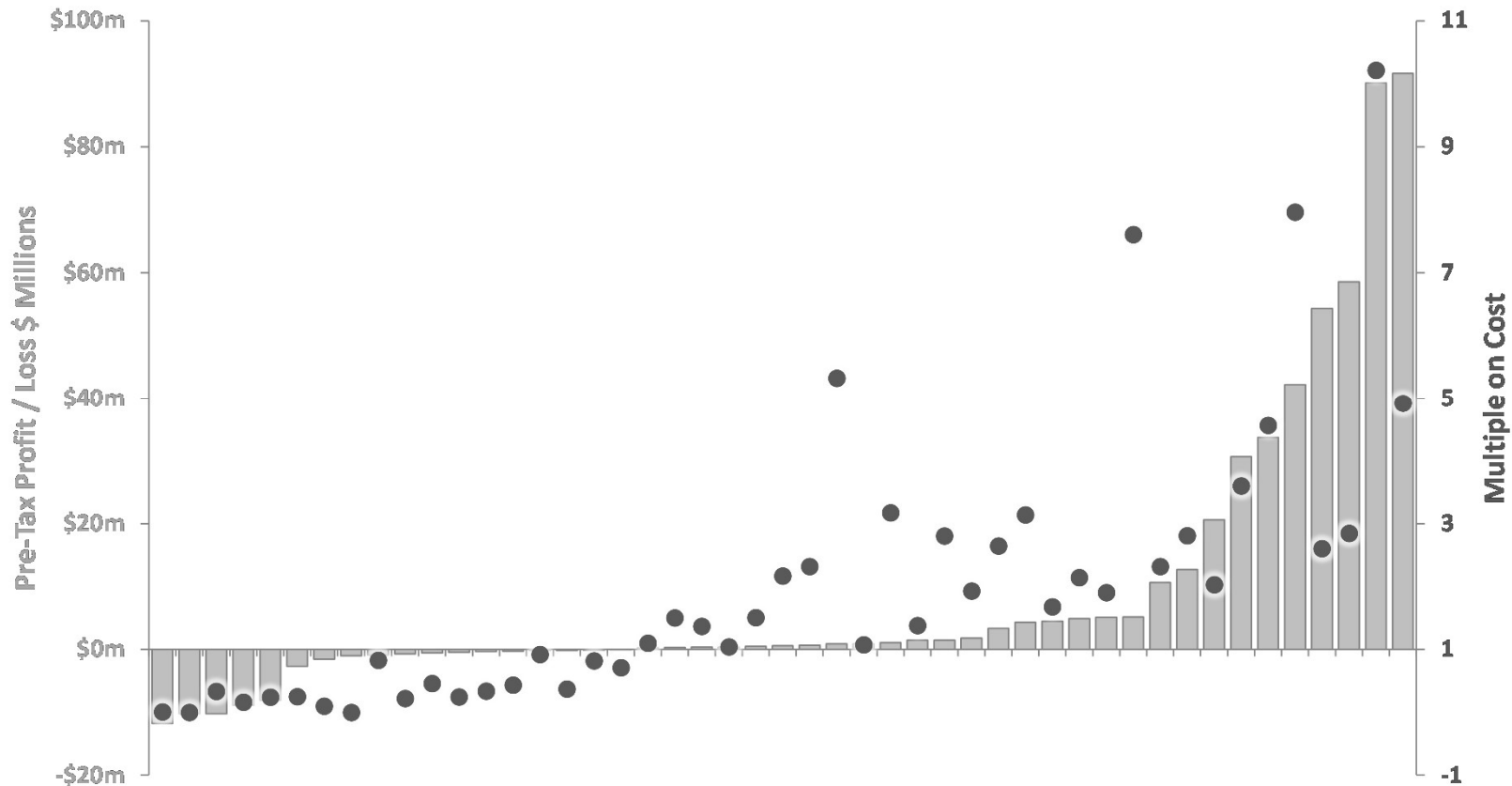


Commodities – beware “flavour of the week”



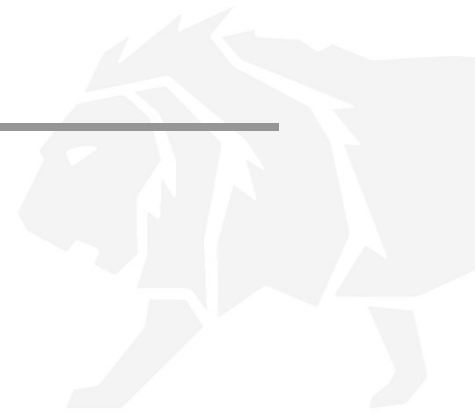
- Opaque market for commodities
- Short duration spike
- Fundamentals for equities – technical and market risks
- All played parts in boosting market buoyancy

Why do you need a Portfolio Approach ?



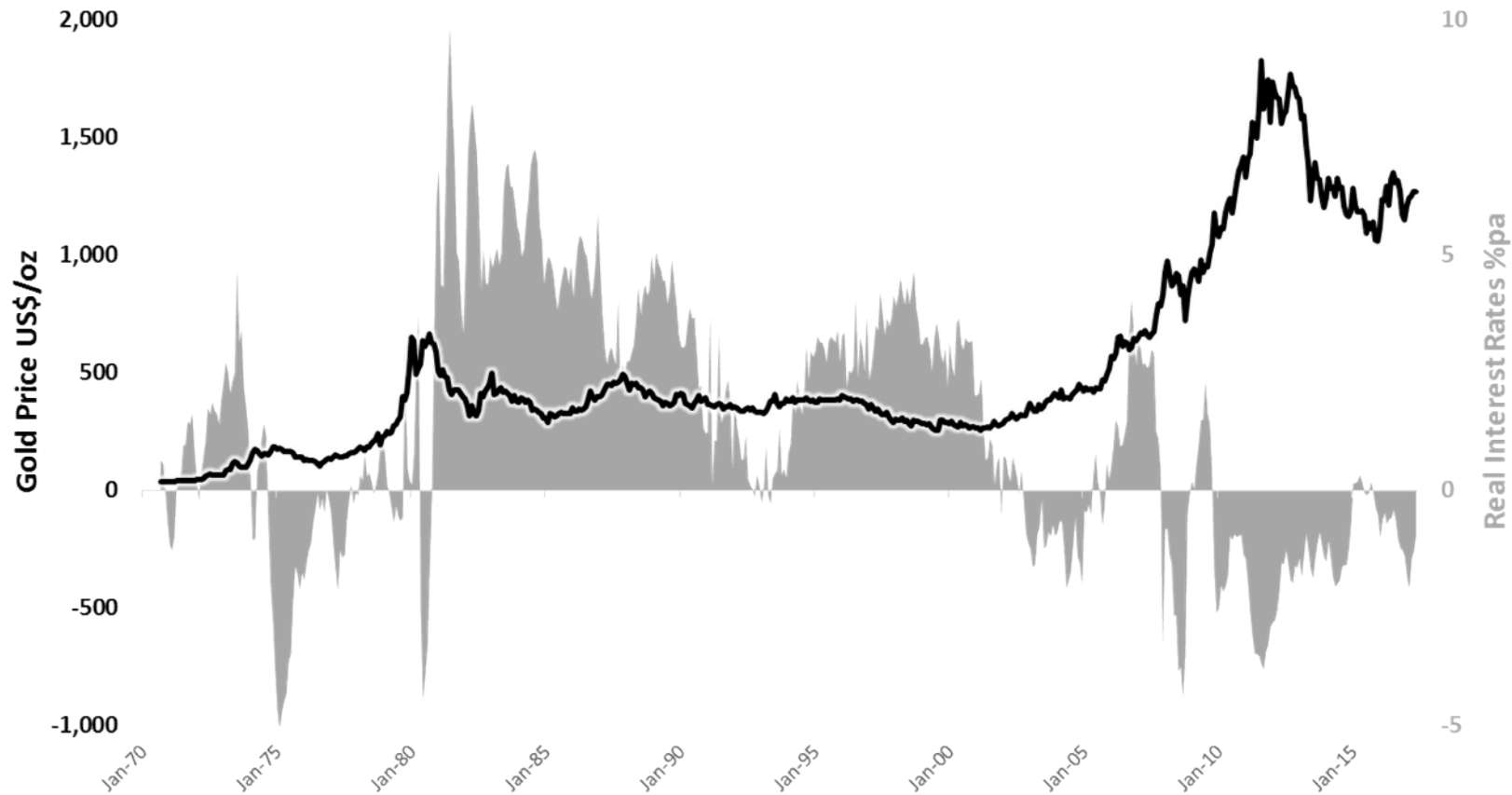
Chosen for:

- People
- Compelling valuation



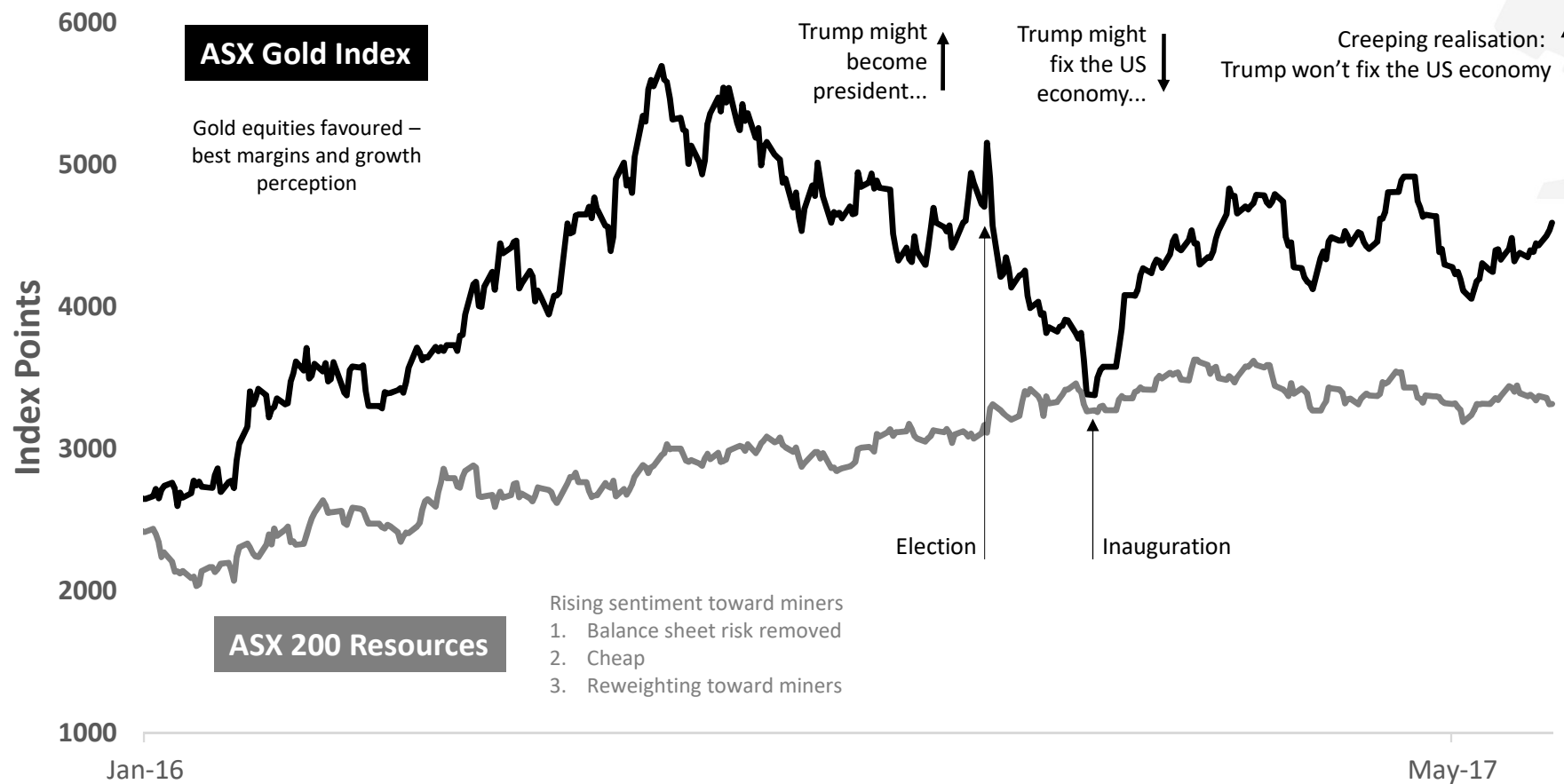
Case Study: GOLD

Gold – Money Banks Can't Print

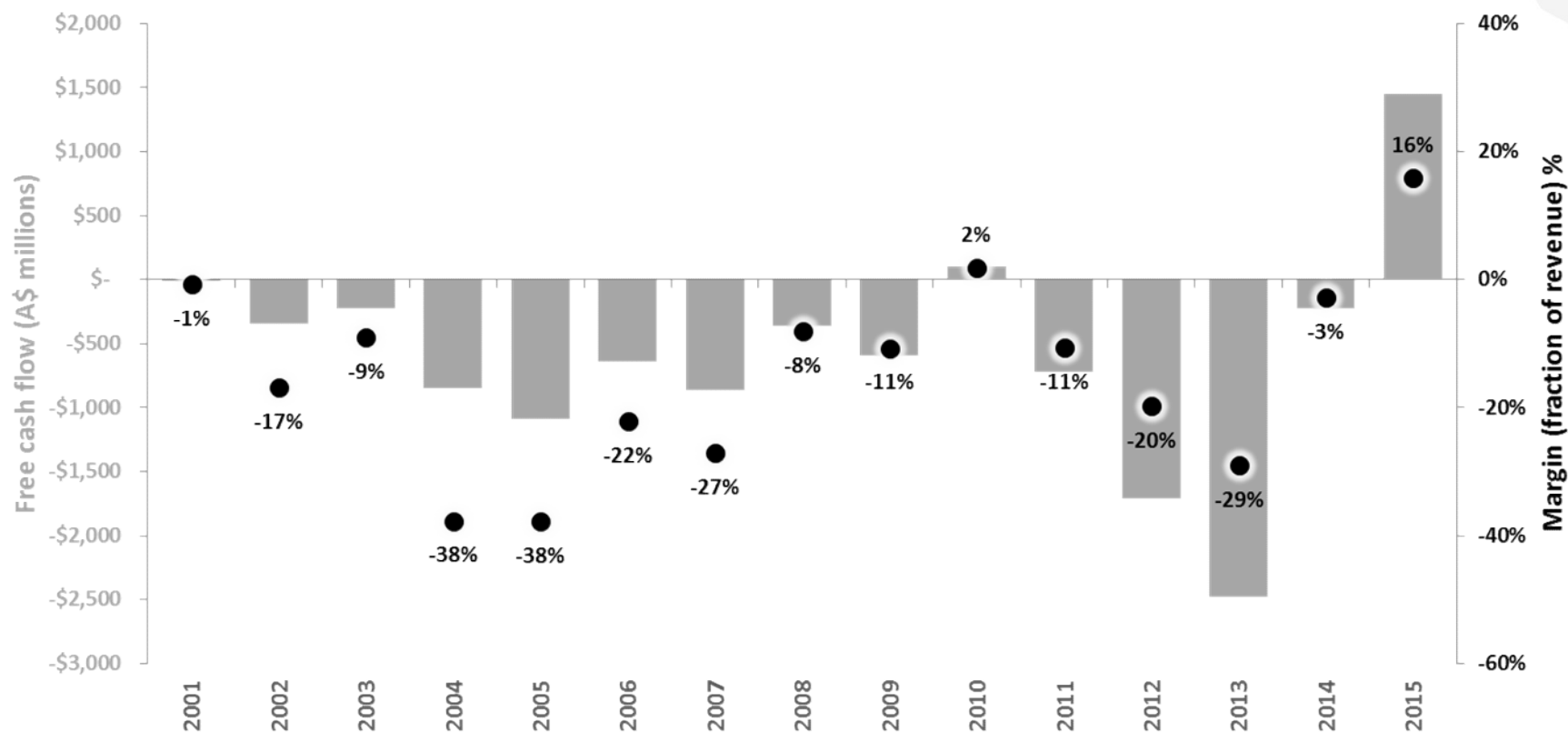


Responds
well to
*low real
interest
rates*

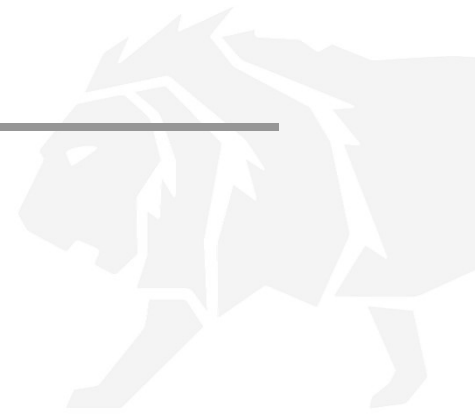
Gold Equities – Led Recovery of Sentiment



Why Gold Equities ?



Source: IRESS Data



Lion Selection Group

- Listed Mining Investment Fund
 - Target: Micro cap miners / Project developers
 - Managed Portfolio exposure to ***Highest Growth Miners***
 - Hold significant % of target stocks
 - Successful long term track record (20 years)
 - *Mining* Investment Team
-



Summary

- Understand where you are in the cycle
 - Avoid buying at the top
 - NOW – early in a new Boom
 - Consider your risk appetite
 - Portfolio
 - Commodity exposure
 - Size of companies
 - Gold Equities
 - Led recovery
 - Will rub off to other miners
-

