
It's **NEVER**
DIFFERENT
this time

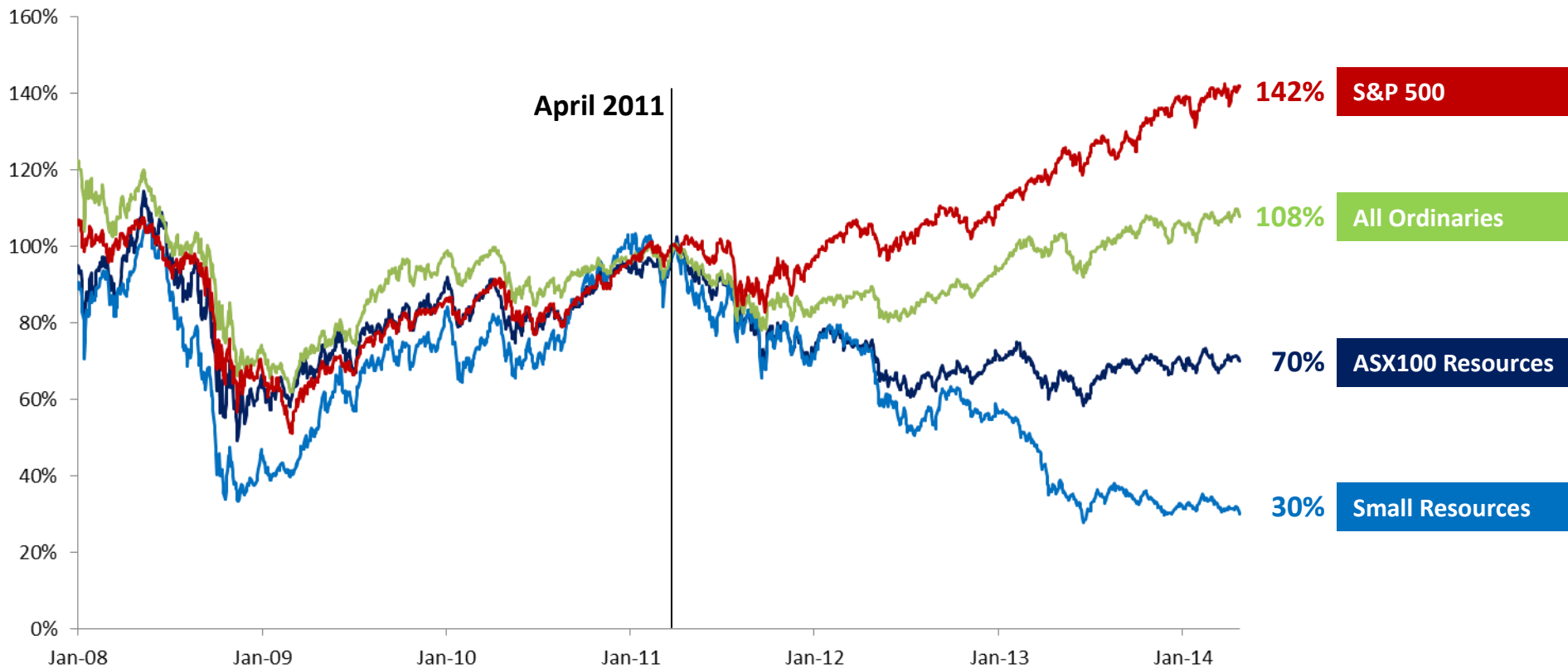
Hedley Widdup, May 2014

Lion Selection Group ASX:LSX

BUILDING EMERGING MINERS

People • Projects • Opportunities

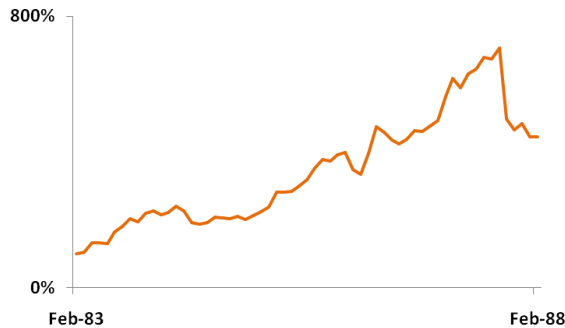
Miners vs Market



Time after time: Mining Cycles



1983-1988



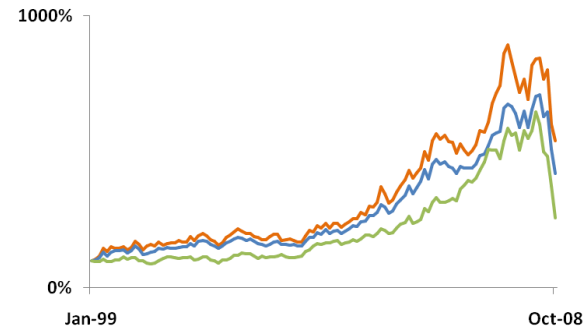
- Ended with 1987 crash

BHP

**ASX100
Resources
Index**

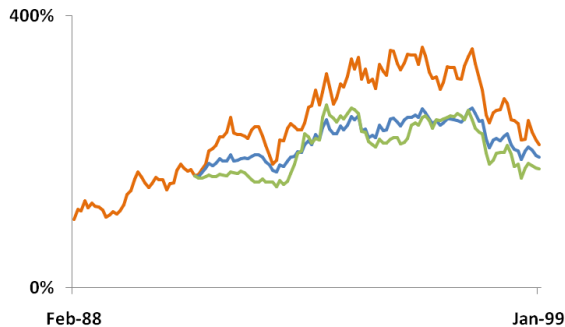
**ASX Small
Resources
Index**

1999-2008



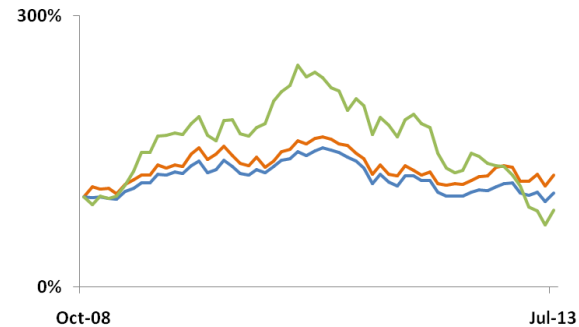
- Ended with GFC

1988-1999



- Ended with Bre-X / Asian Currency Crisis

2008-2013

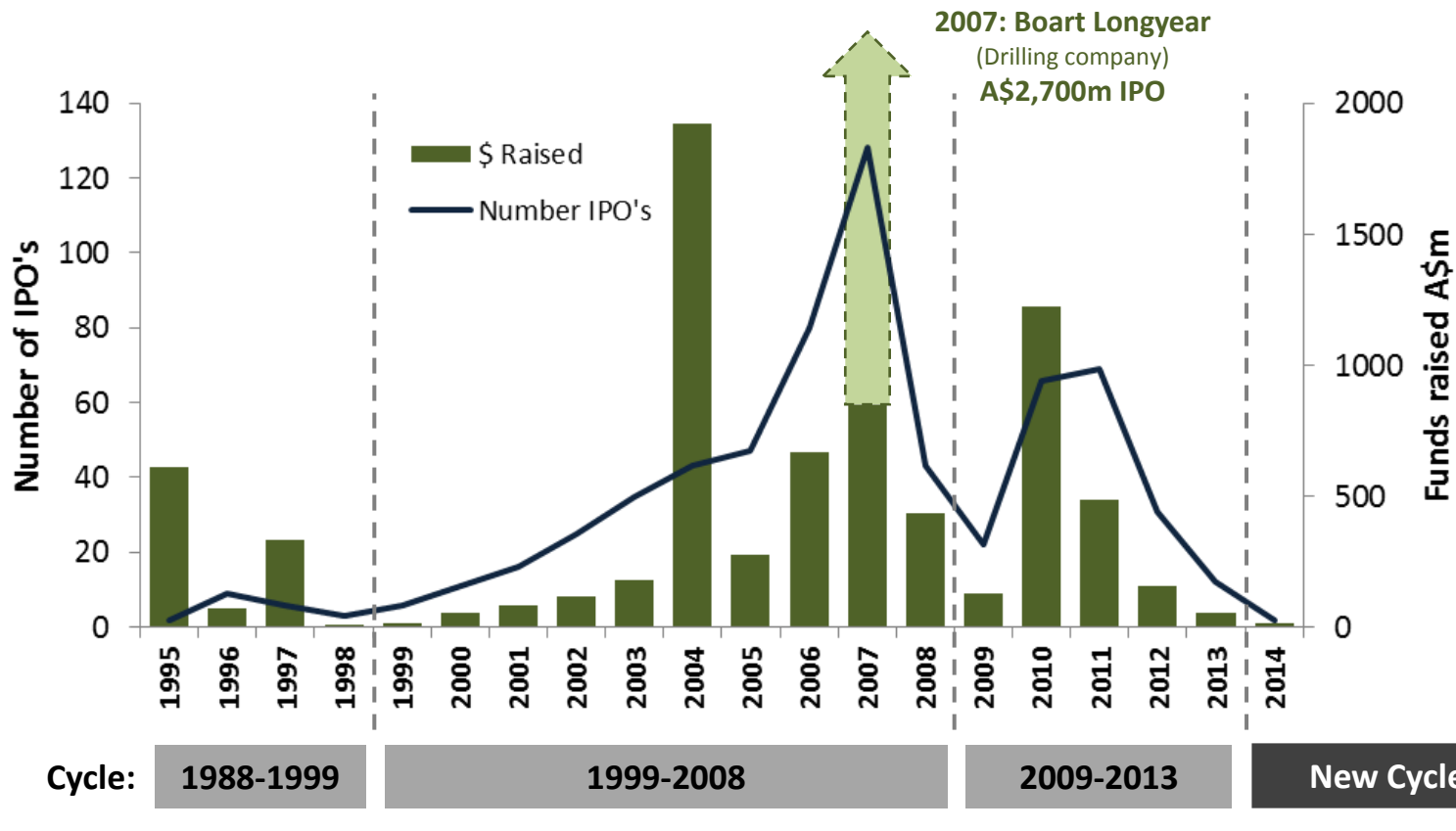


- Unusually rapid recovery: economic stimulus
- Historically high commodity prices
- Slow end: catalysed by European Debt concerns

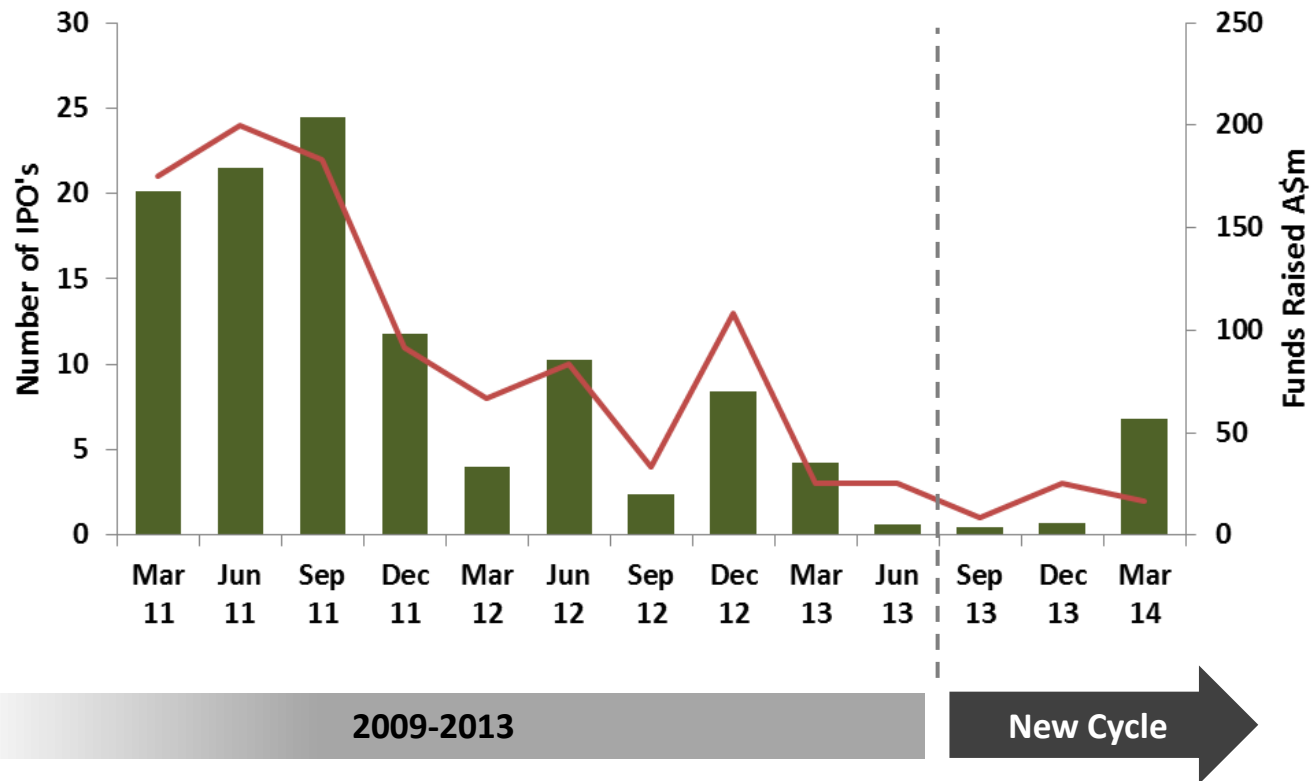
ASX Mining IPO's



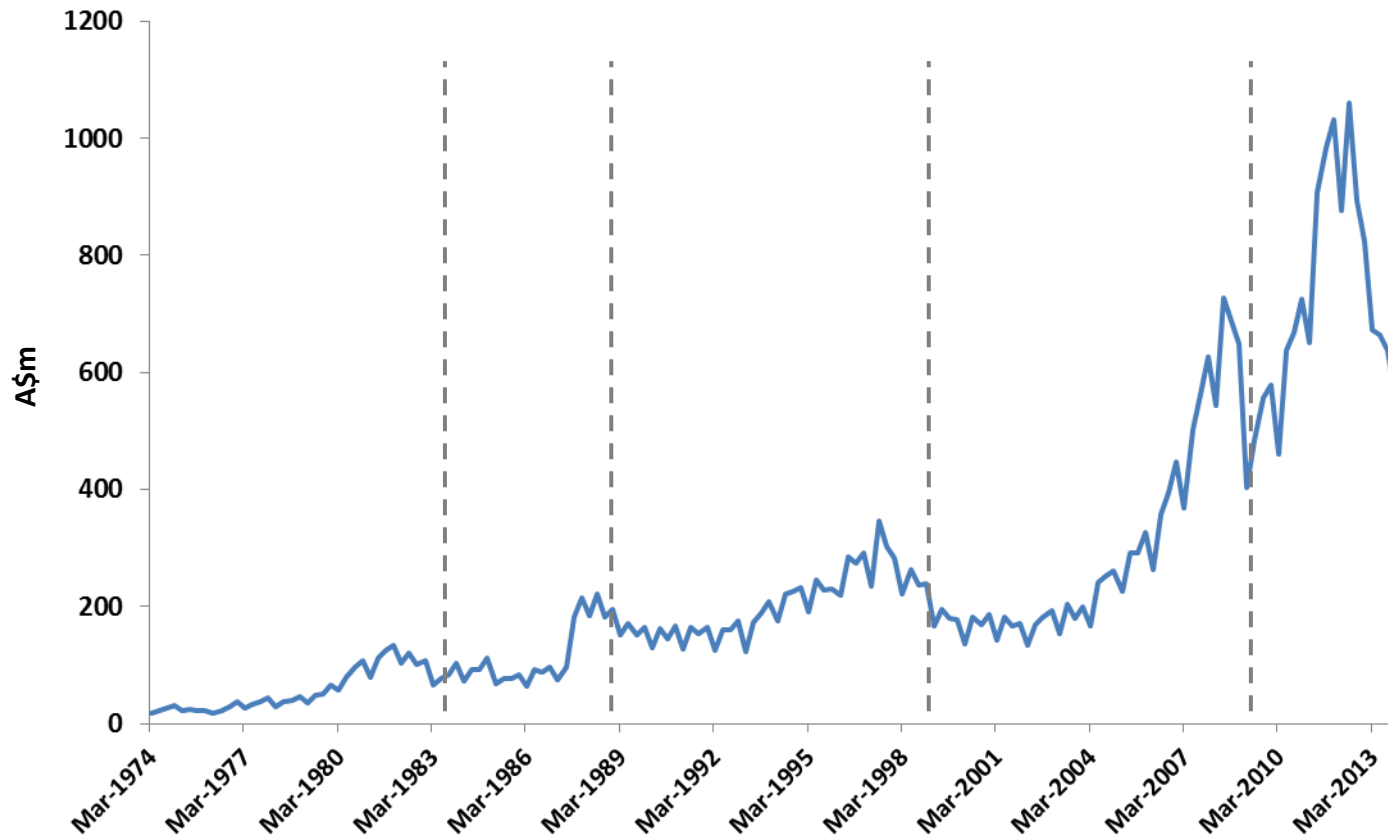
- IPO's test the ability to raise fresh capital for an unknown / unproven company
- Excellent barometer of the boom



ASX Mining IPO's



Exploration



- Australian Exploration expenditure
- Useful proxy of global activity

Cycle:

1974-1983

1983-1988

1988-1999

1999-2008

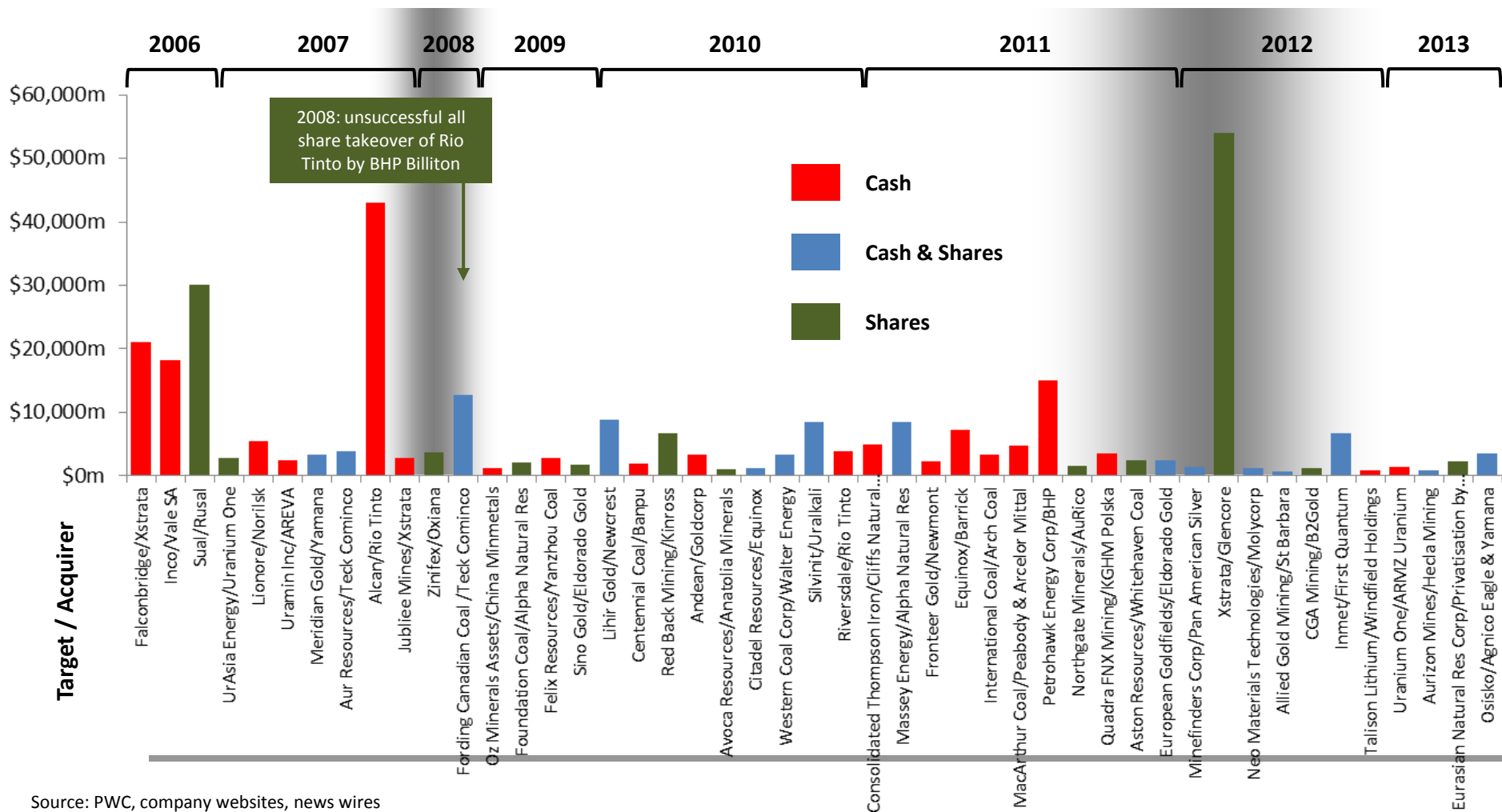
2009-2013

New Cycle

Large Mining Takeovers



- All paper takeovers – characterise the peak of the boom
- If **BIG** is good, **MORE** must be better



Source: PWC, company websites, news wires

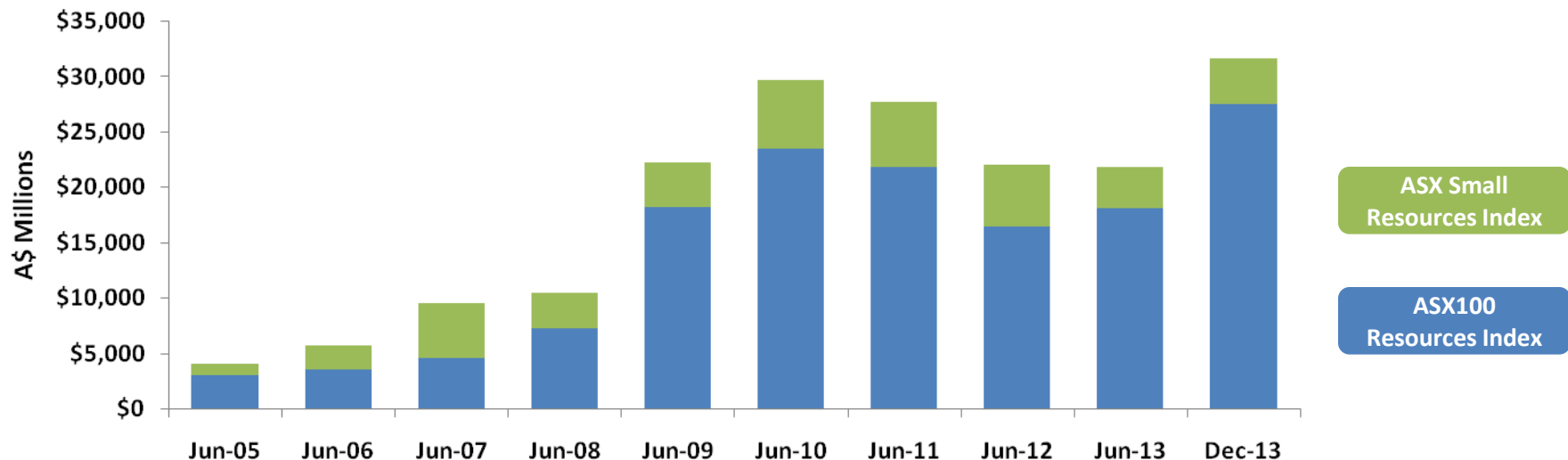
Mining M&A



“Junior” Sector:

- 611 companies, no cash flow & <\$100m market cap,
- \$8,328m combined market cap ¹, \$1,827m combined cash balance ²
- 303 <\$1m cash ²
- 123 \$1m-\$2m cash ²

Collective cash balance: ASX 100 Resources and Small Resources ³



Towards the next boom...



Catalysts

- Commodities
- M&A
- Exploration
- Cyclical return of risk money

Indicators

- IPO volume and funding
- Exploration spend

**History tells us that
cycle follows cycle:**

***There will be
another mining
boom
(and another, and
another...)***

Anecdotal evidence



- Redemption selling
 - Secondary raisings into windows of liquidity: led by the growing mid-tier
 - Vast sums of money “watching”
 - Professional capitulation
 - Investor interactions
-

China



Backdrop

- Leadership changeover late 2012
- History of poorly performing mining investments
- Shift to value oriented allocation of capital
- Continuing economic growth

Mining Investment Appetite

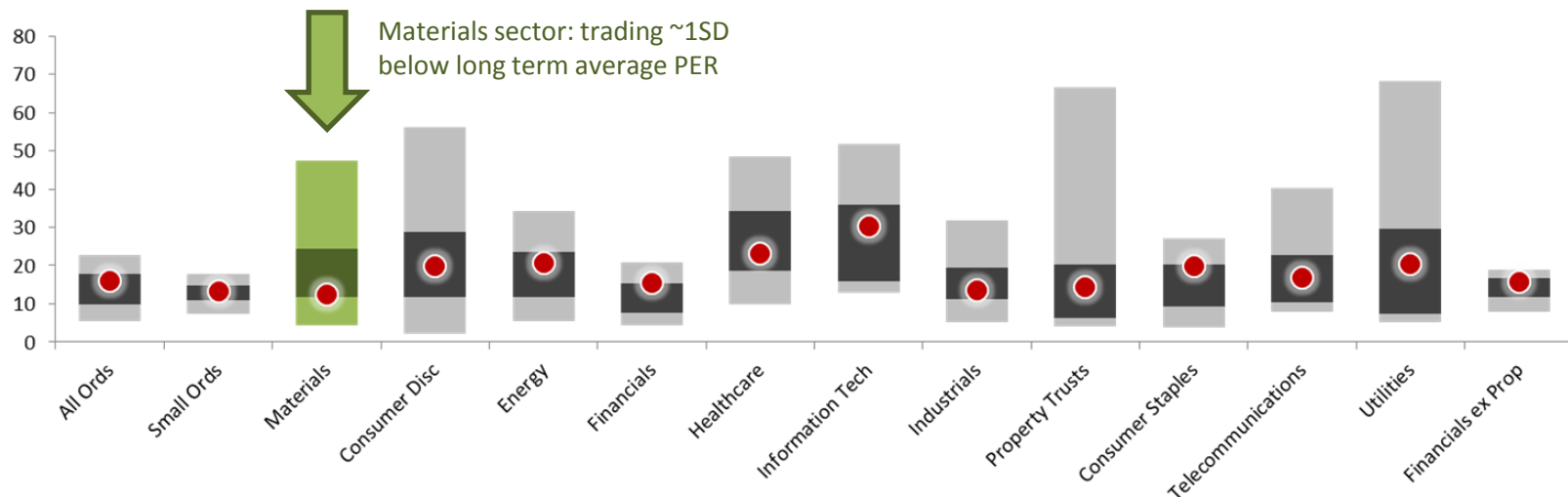
- Strategic appetite remains strong
 - Outbound investment coming out of hiatus ?
 - Aquila, PanAust, Bullabulling, ???, ???
 - Arbitrage
-

Where is the risk money ?

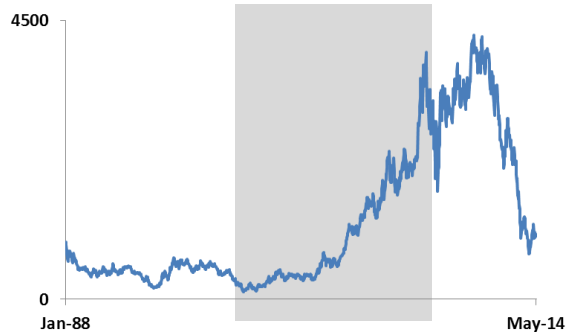


- Going dotcom
- Chasing yield
- Buying businesses from PE funds
 - Record ASX initial capital issuance

ASX market indices: PER and historic PER ranges



Why invest in Junior Miners ?

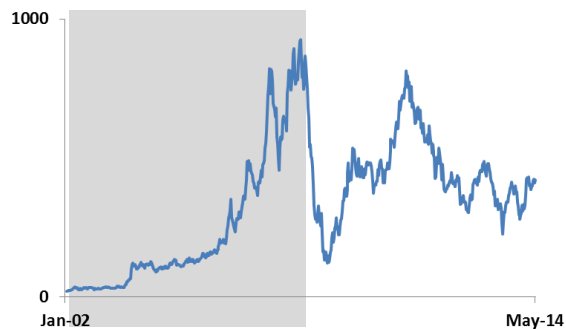


Global Mid-tier / Major

12.5x
Multiple

6.4 years
Timeframe

- Producer
- Multiple mines / revenue streams
- Subject to commodity price fluctuations and currency risks

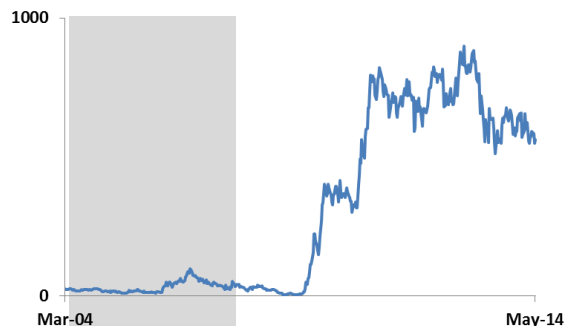


Junior Miner

46x
Multiple

6.1 years
Timeframe

- Producer – mine acquisition and discovery
- Sole commodity / sole project risks
- Market watches key person and reserve replacement



Mining Micro Cap (aspirant)

105x
Multiple

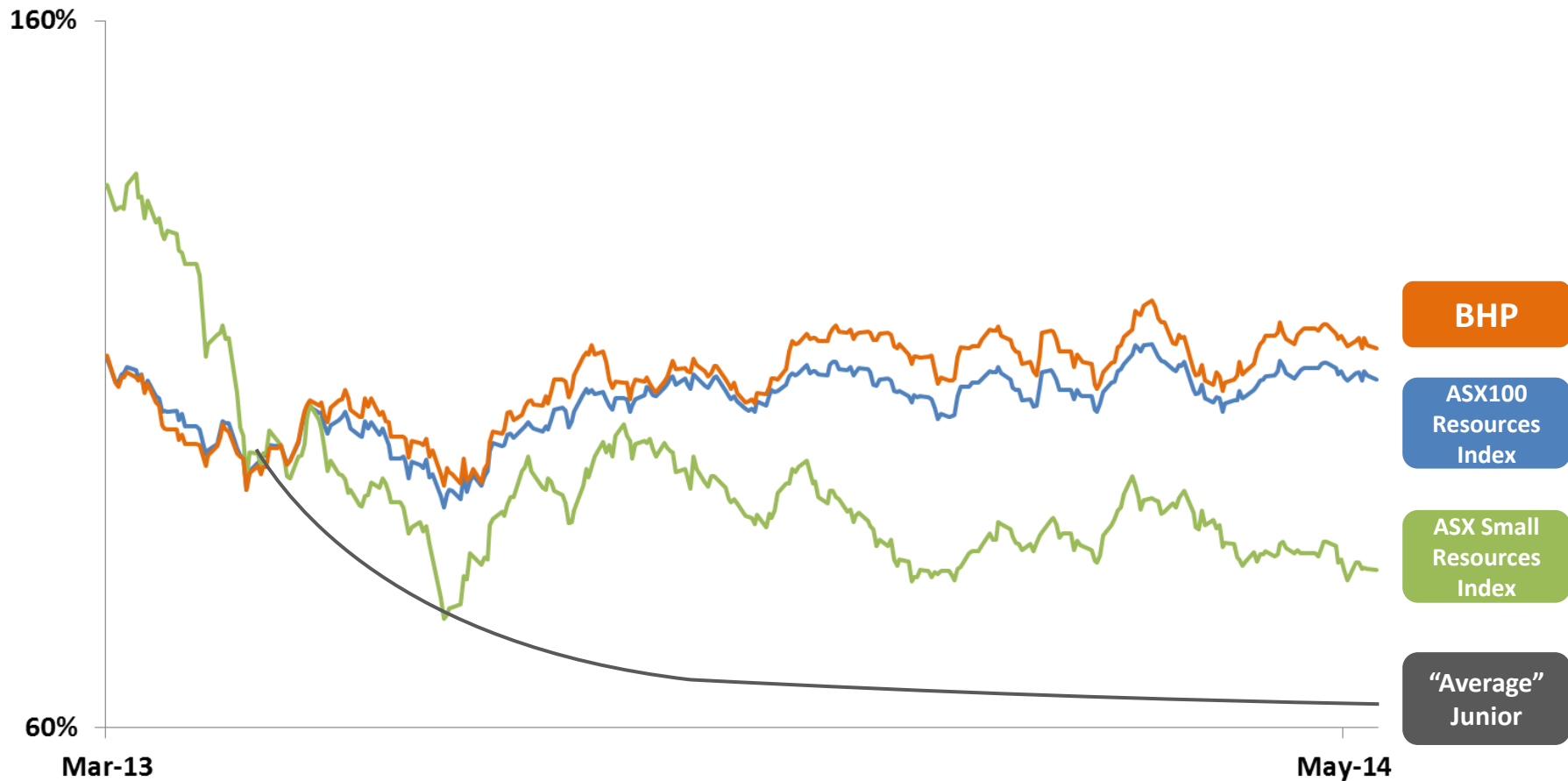
3.8 years
Timeframe

- Successful discovery, funding and development
- Highly sensitive to technical results
- Rerating possible out of synch with boom

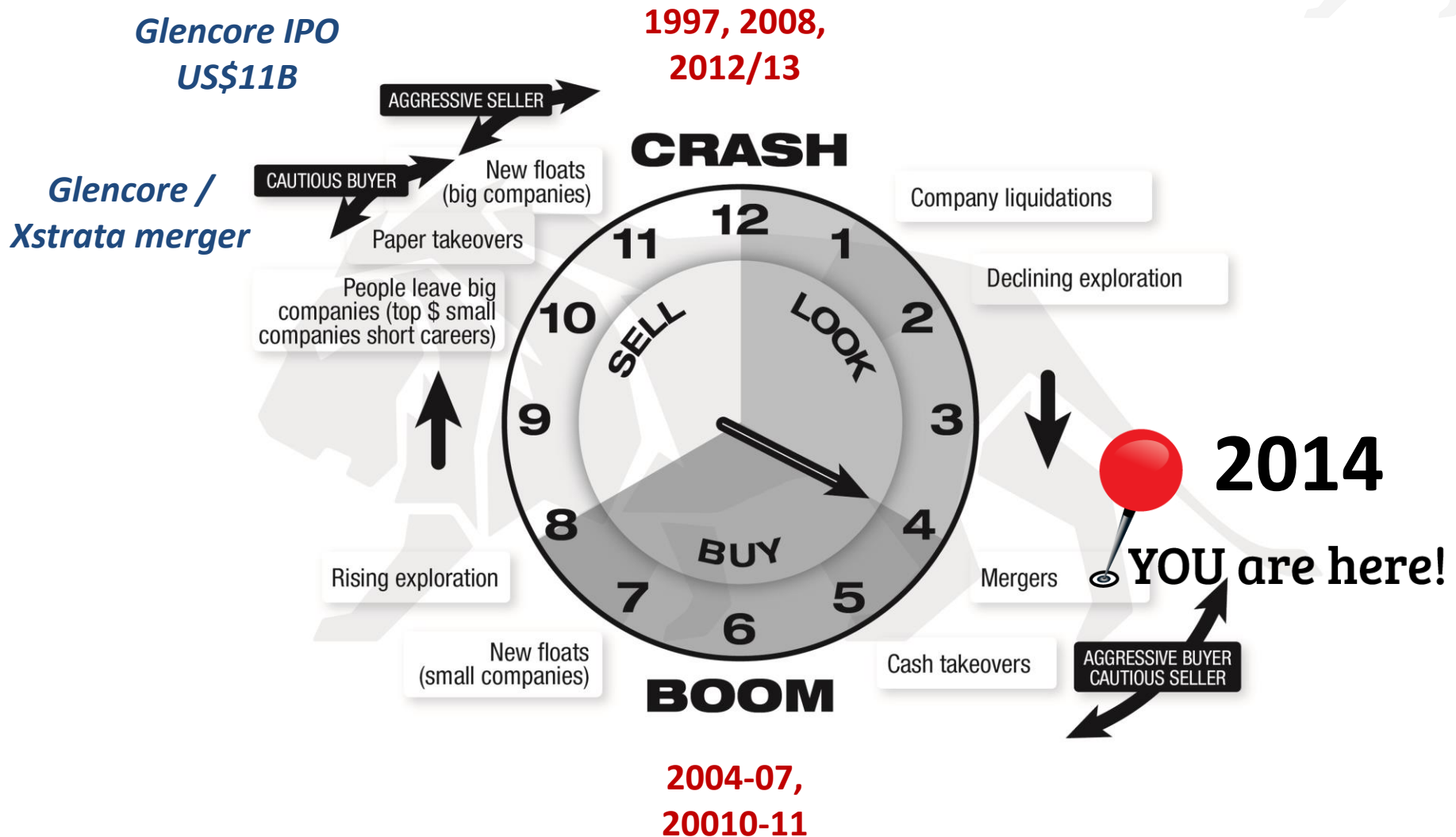
Start of a new cycle



- Juniors characteristically underperform majors



Early in a new cycle



If I asked you...



...in 1900 when the Dow was priced at 50 points, what would you predict the price of the Dow to be in 2013, given that the coming 113 years would include two world wars, the invention and deployment of nuclear weapons, the Great Depression, Global Financial Crisis and numerous other economic disasters?

Would you say “more than 16,500” – a multiple of x330

LION SELECTION GROUP

ASX : LSX

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People • Projects • Opportunities

SPECIALIST LISTED INVESTMENT COMPANY

www.lionselection.com.au
