ACCESSING CAPITAL IN LONDON

While for some companies accessing overseas equity markets can seem like something for the "too hard basket", **Fox-Davies Capital Ltd** corporate finance director Jonathan Evans says accessing the London market is not as difficult as many would think and has advantages greater than others would think.

Australian junior mining companies have enjoyed some of the strongest equity market conditions until relatively recently. During my regular visits to the "Lucky Country" over recent years to meet junior mining companies there was always a lively debate about accessing investors in London. Since the development of the AIM market a number of Australian companies have raised equity in London through listing on AIM.

Many ASX listed companies have equity stories that are potentially attractive in London. Based on my meetings the following areas tend to generate the most discussion: market conditions, requirement to dual list and liquidity on AIM. Many directors were sceptical about the ability to access capital in London without dual listing and especially viewed AIM as an illiquid market.

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Dual Listing

There is no fundamental requirement to dual list in London in order to access capital in London. Many companies, including Papillion Resources and Equatorial Resources have successfully raised capital without listing in London. Moreover, London investors have frequently bought on market into ASX listed companies. Conversely, many ASX companies have chosen to dual list in London without raising capital but simply to develop investor awareness. Companies including Wolf Minerals, Continental Coal and Base Resources have chosen this path. Finally, a dual listing will allow companies to access a broader pool of investors as some funds will not invest in overseas listed stocks.

In order to access a new capital market the company should be prepared to invest time and resources to communicating the equity story, meeting and gaining the confidence of investors and developing relationships with the broader capital markets community. This takes time and commitment and the days of turning up with a presentation for a capital raise immediately have long gone. Investors can be expected to cautiously follow a management team and the equity story before necessarily committing capital.

Liquidity on AIM

AIM has historically been dependent on institutional investors to raise equity, although there is a relatively active private investor scene, especially in the resources sectors. Liquidity, as measured by number of shares traded, has improved vastly in recent decades despite the recent pullback in equity markets.

Liquidity for dual listed companies

I have analysed volume on the basis of a 52 week average to give a fair time representation of liquidity and to omit seasonal variances.

The results indicate that liquidity is frequently stronger in London, with companies recording greater volumes via their London listing. This may be due to a variety of factors including the key management being located in London, location of the project etc. However, it does underline that a London listing can be beneficial for companies with "London friendly" equity stories in order to develop liquidity. Interestingly, Base Resources and Continental Coal have seen shares migrate from the ASX register to London without any shares being placed into London through a capital raise and purely through investor interest. Therefore, by definition, the dual listing will expand the potential investor list.

Generally speaking, London investors prefer advanced projects in emerging markets, especially Africa, supported by proven management teams. Many junior mining companies listed on the ASX have sought to "instititionalise" their shareholder list through a placing to blue chip funds when the project is sufficiently advanced to appeal to such institutions. This continues to be a sound capital markets strategy and no doubt more projects will dual list in London over the next 2 years in anticipation of reaching a critical financing point.

Now that the markets have become more discerning it will require management more than ever to position and differentiate their equity stories to a wider pool of potential investors. London continues to enjoy a strong mining capital markets scene with a plethora of equity funds, hedge funds and family offices serviced by a breadth of mining focused advisers and analysts.

Our standard advice for accessing capital in London is to "play the long game". Companies and their advisers need to develop a well thought out investor relations and broking strategy and raise awareness over a period of time. This process may begin 12 months before the targeted capital raise so that investors are well aware of the history and the future milestones of each project. Finally, management should expect to travel regularly to update investors and continue to service the capital markets community long after any capital raise.