

Analysts share 2016 predictions

BIANCA BARTUCCIOTTO



As 2015 winds down and once the Christmas party haze wears off, it will be time to look to the year ahead.

The investment market in 2015 was little short of abysmal and it looks as if 2016 will be a mixed bag.

This year mining investment slumped to its lowest level in eight years, according to the Australian Bureau of Statistics, whilst the ASX 200 resources index dropped by 25 per cent over the year.

But doom and gloom aside, is there a realistic possibility market conditions can improve? And if the recovery takes longer than expected, where can we find dollar value in the current market? *National Mining Chronicle* asks the experts.

GFC not over yet

StockAnalysis Founder Peter Strachan said current commodity prices were the effect of the ongoing global financial crisis.

"We've actually been in a downward market since late 2007, so we're effectively seven years into this slump and the global financial crisis hasn't actually finished for the global resources sector," he said.

"The market is now below the lows we saw in early 2009 for resources stocks, so we're back to 2004-2005 levels.

"In the meantime we had a bit of a bull market in the bulk commodities like iron ore and coal, but the prices for these commodities have fallen to levels that don't support the sort of production that is required to meet ongoing demand.

"Commodity prices now are trading well below marginal cost of production. Probably only 20 to 30 per cent of the world's nickel is currently cash flow positive at the current price.

"What we are going to see over the next six months is the market finding some sort of a base and that will be when sufficient supply has been knocked out of the market. This is when commodity prices will rise to spur on production to meet ongoing demand.

"People are still using [the commodities], so ultimately we are going to have to see a bounce in prices. We are probably three to six months away from that.

"I'm starting to feel confident that in the first half of calendar year 2016 we will see some improvement in commodity prices and ultimately that will flow through to the price of stocks."

Mr Strachan said he was keeping his eye on Independence Group (IGO), a broad base metal producer backed by Mark Creasy, and Gold Road Resources (GOR), a low-cost gold producer in the Yamarna belt.

Performing in tough conditions

Unlike Mr Strachan's early year recovery predictions, Resources Stocks To Watch Director Sarah Misev said she expected a slow and steady recovery in the sector in 2016, tipping an increase in prices toward the latter half of the year.

She said global oversupply was the biggest factor holding back prices.

"Due to global oversupply and weak demand in mineral resources, I do not foresee much of a recovery in commodity prices for at least the first half of 2016," Ms Misev said.

"It has been quiet in the exploration and mining sector over the last couple of years and this lull is expected to continue, certainly in the short term. However, a slow and steady recovery is expected in the later half of 2016.

"During 2015 over 30 resources stocks have delisted from the ASX - some of those moving into voluntary administration and a number of companies taken over. These companies range in sectors including gold, copper, silver, nickel, iron ore and molybdenum."

Ms Misev said some resources stocks performed well during the year.

"Some resources stocks have continued to thrive during this challenging period," she said.

"Pilbara Minerals, a tantalite-lithium explorer and emerging producer, recently signed offtake agreements for the future sale of low-iron spodumene concentrate from its Pilgangoora Lithium- Tantalum Project in Western Australia."

In terms of more specific stocks, Ms Misev named small- cap resources companies that Resources Stocks To Watch was keeping an eye on over the coming year.

These include Lucapa Diamond Company (ASX: LOM), a diamond miner in Angola; Cradle Resources (ASX: CXX), a niobium development company working in Tanzania; Energia Minerals (ASX: EXM), a zinc development company in northern Italy; General Mining Corp (ASX: GMM), a WA-focused tantalum-lithium developer; Ramelius Resources (ASX: RMS), a gold producer in WA; Axiom Mining (ASX: AVQ), the Solomon Islands-focused exploration company; and Blackham Resources (ASX: BLK), the gold-focused development company working in WA.

Recovery from low base expected

The Sophisticated Investor Founder and Principal Adam Kiley said he expected a recovery in 2016, but nothing near the levels seen throughout the mining boom.

"I like the Australian gold sector but that's not to say I would put hand to heart and say there would be an increase [in prices]," he said.

"The other one is uranium. The uranium price has been flat during the past 12 months, however, given the fluctuations in the price over the past five years and the fall experienced by other commodities, this is not a bad result.

"We also note the price has risen by around 20 per cent in Australian dollar terms given the fall in the Australian dollar currency. There is a forecasted shortfall in supply by 2017 to 2018 as a number of reactors come back online in Japan."

Mr Kiley said investors in the new market were looking for a particular type of company project. He pointed to how "doable" a company's projects were as to whether that company would attract investors.

"What that means is how large is the capital required to finance [the company's] projects," he said.

Mr Kiley said the days of financing for projects of more than \$100 million were "long gone, especially for junior to mid-cap companies".

He added investors would look for companies with strong projects that would take less than \$50 million to get to production, with a view to expand in the future if that project proved viable.

Mr Kiley said he was watching a number of companies operating in the uranium and gold space.

As well as previously mentioned Blackham Resources (ASX: BLK), he is watching Vimy Resources (ASX:WMY), the Mike Young-led uranium player in Perth; Boss Resources (ASX:BOE), a diversified player working in West Africa and Europe; Carbine Resources (ASX:CRB) and its Mount Morgan gold and copper mine in Queensland; and MZI Resources (ASX:MZI), a mineral sands player that is fully funded for the Keysbrook project in WA.

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