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Stratex's Share Price Weakness Obscures A Fundamentally Strong Position In Turkey

By Alastair Ford

Bob Foster of Stratex International gets on the phone for a quick chat, following an upgrade to the in-house resource numbers for his company's lead project at Altintepe in Turkey. It might be just a fancy, but you can almost hear the exasperation in his voice. Bob isn't one to shy away from market updates. Indeed Stratex has a fairly good track record of keeping the market well informed about developments on all of its properties in Turkey, from the Teck Cominco-funded drilling at Konya, to new resource updates at Altintepe, to the ongoing hunt for porphyry systems in and around Doganbey. The company has continuous dialogue with major shareholders, and if the Stratex website is slightly out of date, well, you can always catch the latest news on Minesite.

But Bob presents a single salient fact about Stratex, one that serves to illustrate how meagre the rewards for all the effort Stratex puts into communicating its successes can be. Subtract Stratex's £4.1 million cash in the bank from the company's current £7.9 million market capitalisation, says Bob, and then divide that total by the number of ounces the company has to its name so far, and you come out with the eye-watering fact that the market attributes a value of between US\$5.00 to US\$6.00 for each of Stratex's ounces. That's a lower valuation per ounce than you'd get for early stage projects in the remoter parts of Africa or Central Asia, or lower at least than you'd get in normal market conditions, anyway.

But what are normal market conditions these days? The Aim market has been the subject of abnormal conditions for so long that it's beginning to become clear that sooner or later we may have to face up to the fact that Aim isn't actually a normal market at all. Rather, it's a market that allows fund managers to attribute notional values to their investments. It's a market that allows mining companies to shuffle assets around. And it's a market that allows investors a certain visibility, where otherwise there'd be none – remember the battle over unlisted Lesotho Diamonds when bidders couldn't find out how many shares were actually in issue, and therefore never knew many they needed to gain control? But, against all of the best capitalist traditions, Aim is not a market that's particularly good at setting prices or valuing companies.

In that sense at least, pity poor Stratex. It's just booked over half a million ounces at its flagship Atintepe project, and seems some way down the track to offering the property out to potential joint venture partners. It's got a further half a million ounces across two other properties, most of those oxide ounces too, although not all of them

to JORC standards. The focus is on exploration, sure, and cash flow isn't round the corner, but Bob Foster reckons a feasibility study on Altintepe could, at a push, be put to bed by the end of next year. It wouldn't be a huge operation, but then again, it wouldn't all have to be paid for by Stratex either.

Yet the company's shares have dropped steadily, from the 9p they were trading at this spring, down to the current 3p. That's a two thirds decline in value, without much negative news to justify it. And back in that same spring, when things didn't look so bad, either on markets or in the wider world, we criticised RAB Capital for selling down its Stratex stake. Well, we called that one wrong! But whether RAB's shareholders think selling Stratex makes up for Northern Rock or so much else that's gone on is another matter.

Gold is weaker, of course, and cash and credit is much thinner on the ground. Downward pressure on Stratex from two fronts. But really, the sad fact is that companies like Stratex have, in some degree, just gone out of style. Equities as a rule aren't exactly flavour of the month, and equities that aren't supported by earnings and yields are particularly out of favour. But, with a bit of luck though, and if a bit of sense returns to markets, the company's up-and-coming newsflow might go some way towards reversing the downward trend. There's drilling at the Doganbey to be reported on, there's the possibility of joint venturing Altintepe, and there's the updates due out from Teck on Konya and the other properties Teck is working on. There's even the possibility that Teck might make up its mind as to which of Stratex's properties it wants to exercise its fourth option on.

All of that holds out some hope for any beleaguered shareholders out there who are thinking of cutting and running. As Bob Foster says, "we are more than fundamentally sound technically and financially". There's no arguing with that really. But what that soundness is actually worth in a monetary sense is for the Aim market to decide, rather than market analysts, at least until the company prices up its assets to joint venture partners. Life's never fair, is it?