

# Resources Industry Investment Analysis

This course assumes some financial knowledge and is aimed at those who desire a better understanding of the value drivers and sources of competitive advantage in the natural resources industry. It draws examples from both the mining and petroleum sectors. Generally presented as a 2 day course.

## SESSION 1: OVERVIEW OF THE RESOURCES INDUSTRY

- Unit introduction, objectives and requirements
- What is the resources industry?
- Base metals, precious metals, industrial minerals and energy
- How and where is value created in the resources industry?
  - Exploration
  - Extraction
  - Processing
  - Logistics
  - Market

## SESSION 2: EXPLORATION, RESERVES AND RESOURCES

- How are exploration decisions made? Where do we drill next?
  - Acquiring access to acreage
  - Making exploration investment decisions
  - Decision Trees
  - Expected Monetary Values
  - Farm in/Farm out agreements
- What are Reserves and Resources? What level of knowledge and confidence is required so that reserves can be “booked”? What judgment should we make about field life if we want to value a resource?
  - Reserves and Resource definitions
  - Mine/field life
  - Translating reserves into future earnings
  - Replacing reserves: exploration versus acquisition
  - Example: Royal Dutch Shell Reserves writedown

## SESSION 3: VALUATION APPROACHES

- How do we value un(der)explored but prospective acreage? How do we value properties with known but uneconomic reserves? Issues in resource project valuation.
  - Valuing development properties
  - Cost of Capital issues - resource stock betas
  - Real option applications
  - Valuation of stranded resources
  - Framing project expenditure decisions

- Acceleration economics

#### **SESSION 4: COMMODITY MARKETS**

- How are commodities marketed and sold? What is the purpose of price hedging? Why have hedging issues been at the centre of a number of corporate collapses?
  - Exchange traded commodities
  - Long term supply contracts
  - Hedging: objectives, instruments and strategies
  - Hedging: managing risk or creating risk?
  - Making price forecasts
- Examples: Sons of Gwalia, Pasminco

#### **SESSION 5: FISCAL REGIMES: RESOURCE RENTS, TAXES & ROYALTIES**

- The natural resources of a country are the property of the state or crown. Resource companies therefore face two levels of taxation: a “rent” tax, to compensate the state/crown for the development of a finite resource, and general corporate taxation. How are these “rent” taxes levied? What impact will they have on our investment decisions?
  - Taxation of the resources industry
  - Government take versus exploration prospectivity
  - Royalties and levies
  - Resource rent taxes (PRRT)
  - Production sharing contracts
- Case Study: The Australian Petroleum Resource Rents Tax vs the Indonesian Production Sharing Contract

#### **SESSION 6: INTERPRETING RESOURCE STOCK FINANCIAL STATEMENTS**

- Investors external to a resource company must make judgments about future profitability on the basis of published accounting reports. What are the critical accounting issues that relate to resource companies?
  - Resource company accounting conventions
  - How is the value of in-ground reserves presented?
  - Accounting for exploration success/failure
  - Depletion of mine development
  - What is “impairment”? When is a property “impaired”?
  - Provisions for rehabilitation
  - Unit costs: full costs and cash costs
- Case Study: Western Area NL

## SESSION 7: RESOURCE STOCK VALUATION

- How can we combine reserves reports, accounting statements, fiscal regimes and commodity prices to create an earnings and free cash flow forecast for a resource stock? What stock valuation approaches are most applicable to resource stocks?
  - Forecasting sustainable earnings
  - Stock valuation approaches
- Summary, Q&A