APPEA Tells Juniors To Go Forth And Market Themselves

Don Sanders

Junior explorers need to recognise that getting capital is all about selling an 'investment product' and the chances of success are enhanced if the product for sale is good, and if there is a sound selling strategy, according to Don Sanders, Director APPEA WA and NT.

Sanders told delegates at an exploration seminar in Perth that the small end of the market is not insignificant and is operating successfully in Australia's upstream petroleum industry. He said around 60% of companies currently holding equity in offshore exploration permits are classed as small explorers.

"Therefore, the junior end of the upstream industry shouldn't start with an implied inferiority complex", Sanders said.

In preparing a sales strategy, Sanders said small explorers needed to consider the following: Firstly, they are selling an investment product in a highly competitive share market and not the speculation market.

"The dot.com boom and bust has probably absorbed a great deal of the speculative capital available in Australia and globally", he said.

"Another factor is Australia's ageing population, with the proportion of the population over 50 growing and, frankly, small explorer companies don't fit the investment risk profile of this group."

Sanders added, investors these days don't always have the time to carefully evaluate each investment and so rely heavily upon fund managers, who tend to invest in $100 MM packages and not in $10 MM packages.

Sanders said an important first step for juniors in being attractive to investors is to possess an asset they think is worth something, and that means acquiring good acreage both at home and abroad.

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"It's only after we have found liquids that cash flow from oil sales, and matters like a trend in the global oil price, come into play in the capital access strategy for the business", Sanders said.

"And if we find gas, the resource has little value in the capital access strategy until a sales contract is pretty firm."

Sanders said Australia's complex geology and propensity for gas discoveries, which are difficult to commercialise due to remoteness from the markets, has created the perception that the country is not prospective. This perception is strengthened by Australia's low rate of oil discoveries, which are often too small to be commercial.

"Between 1991 and 2000 the average size of commercial oil discoveries in Australia was about 40 MMbbl, ranking offshore Australia 29 out of 47 countries with commercial oil discoveries", Sanders said.

"This is 10% of the average field size for offshore waters in Brazil, Nigeria and onshore Kazakhstan. The average field size in the Gulf of Mexico during this period was 148 MMbbl.

"Therefore, in putting our 'investment product' together, we need data, good risk analysis, clear business plans and objectives, and clear cost control strategies."

Sanders said another complicating factor is that capital for petroleum investments is scarce and is likely to become even more scare as the industry, according to recently published statistics, will need to spend roughly $US100 BB a year by 2010 just to meet projected demand.

"So we want a 'resource - investment capital' that is scarce on two grounds", Sanders said. "The supply is tight (eg share market, ageing population) and the competition is vicious from other sectors and from our own sector."

The fiscal regime is a concern for many potential investors and is a critical determinant of the viability of an investment in Australia.

"APPEA estimates that taxation payments made to the Commonwealth and State/Territory governments make up 44.7% of total operating costs faced by the industry and 31% of total revenue", he said.

"The base question for a potential investor is, will a company get adequate value for its money if it makes a find in Australia?

"After all, why waste money on exploration if the board is going to say 'no' at the development stage because the project will not meet the company's decision-making criteria for access to capital."

Sanders said the impact of new accounting standards for exploration expenditures (written off in year incurred) on company accounts will also affect ability to raise capital for those with some current production.

Sanders also told delegates that while the regulatory regime in relation to Native Title and the environment is difficult, it's a reality that has to be dealt with and investors will want to know how junior companies handle this issue with least delay, least cost and least risk.

"That said, governments can make the system more co-ordinated, less duplicative and more user friendly", he said.

Sanders said educating brokers about the petroleum industry was another valuable tool for juniors in their fight for capital. "You have to develop strategies for making your stock stand out from the crowd", he said. "The investor is not well equipped to discriminate between competing small explorer investment opportunities. You have to change perceptions."

Sanders concluded by saying small companies have succeeded in Australia and they continue to do so. "They succeeded because they were prepared to fight for what they wanted, they got together a good investment portfolio, backed by a sound business strategy and they sold it and in the process stood out from the crowd", he said.