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Topic: Mining Companies

The global financial crisis had a devastating impact on Canadian mining companies, particularly the junior exploration companies that only had operating costs and no revenue. Global demand for commodities plummeted. As a result, credit was greatly restricted and share prices tanked. Through judicious cost-cutting, curtailed activities, and strategic initiatives, these companies have not only survived, but also their share prices have bounced back to the point where many, although not all, are enjoying substantial increases in market valuation.

The recession forced many companies to place exploration, development, and production on hold for the better part of a year. The pent-up demand from this deferment could cause another commodities boom that is longer than the last.

Of course, this will depend on the emerging countries, particularly China, continuing their breath-taking economic pace. Just like in North America after World War II, where a trickle led to a torrent, there is likely to be a mass migration from rural areas to urban centres in China. This will take place continuously, relentlessly, and inexorably over the next 15-20 years. This can only lead to a continual increase in the supply of urban necessities, facilities, amenities, and all the exigencies that together will constitute the new social fabric of this great emerging nation. To put this in perspective, this migration, assuming it is about 30% of China's current population, will number approximately 500 million, or more than 1 ½ times the population of the USA.

The Great Recession caused the number of mining transactions to increase notably as a substantial number of mining companies made it clear that they were open to mergers or acquisitions. This openness to foreign investment, combined with lower share prices, created opportunities for many countries to invest in the Canadian mining sector, with China leading the way.

These developments are causing a change in the source of financing as companies raise equity not only from the traditional capital markets but also from foreign companies and governments. New sources of funding, rising commodity prices, and increased foreign and domestic demand since the recovery began have caused rapid increases in market capitalizations of many mining companies.

However, we believe it is early innings for this sector's recovery. There are laggards, notably uranium. One day, suddenly and without warning, the market will wake up to realize the uranium bull, so long constrained, was out of the gate.

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