# Moly – Damned in Perpetuity?

Mark Anthony in Shakespeare's words declaimed over the body of Julius Caesar:

> *You all did love him once, not without cause:*
> *What cause withholds you then, to mourn for him?*
> *O judgment! thou art fled to brutish beasts,*
> *And men have lost their reason.*

Well, may we use the same words to describe the fate of Moly. This once "hot" metal is now the mineral equivalent of a leper in our midst forced to wander along Bay Street ringing a bell, to warn travelers, and crying "Unclean, unclean". Such is the noxious nature of Moly these days. And yet in the run-up to 2008, Moly was the metal investors could not get enough of. In some respects it was hotter than gold. And yet now, how is the mighty fallen.

**What Ails It?**

I can recall a meeting back in 2008 or even 2008 just before the LME introduced trading in Moly and Cobalt with a company in the Moly space telling us that it would be a disaster. Logic dictated that there was no way that a clearer, more transparent market should result in the end of life as we know it. But curiously Moly has never been the same.

The chart below shows the wild ride the metal has had in the last decade. Currently its price is little changed from the post-2008 lows from which there was a meaningful rally in 2011 before it sank again.

We stumbled upon this chart in a presentation for General

Moly, a company that hopes to develop its Mt Hope mine in Nevada. The projection part of the chart (by CPM Group) is interesting and points to a well-nigh 100% appreciation over the next eight years.

We have heard various reasons posited for the weakness of the metal. Prominent amongst these are:

- strong U.S. dollar,
- weaker macro sentiment in Asia and Europe
- demand contraction for “at the wellhead” Moly-based steels relating to energy production

However, none of these is really convincing and we shall look at some of them here with regards to their credibility. The weakest argument is the strong US dollar argument as the oil price was very strong for the last few years also thus negating any higher cost for Moly in dollar terms, but in any case Moly has been cheap in absolute terms!

**Applications**

Key to understanding Moly’s attractions as a steel alloy is its anti-corrosive qualities. For this reason it is used in clean water systems, pipelines, desalinization plants and other water treatment plants. More prominently promoted though is its role in oil & gas production and infrastructure, such as:

- Pipelines
- LNG storage and transport
- Off-shore oil & gas
- Horizontal drilling and fracking
- Reducing $SO_2$ emissions (moly as a catalyst)

**Demand**

Something has just not quite added up in the bull version of Moly in recent years (in fact since 2008). As noted the main driver of Moly is supposedly products known as Oilfield Trade Goods (OFTG) and, excepting the last nine months when oil & gas prices have slumped, drilling and infrastructure in the energy industry has been on an absolute tear since 2010 with the fracking boom. And yet…. nothing has measured up to expectations. The demand has clearly been there so the problem must be there OR other parts of the usage universe for Moly are not pulling their weight.

**Production**

So if demand is not bad then the problem could be on the supply side. It is worth noting that the amount of molybdenum recycled as part of new and old steel and other scrap may be as much as 30% of the apparent supply of molybdenum.

It is interesting to look at the latest USGS numbers for the metal.  The estimated US mine output of molybdenum in concentrate in 2014 increased 8% from that of 2013. U.S. imports for consumption increased by 17% from those of 2013, and U.S. exports increased by 4% from those of 2013. Reported U.S. consumption of primary molybdenum products slightly increased from that of 2013. Apparent consumption of roasted molybdenum concentrates increased by 4% from that of 2013.

As can be seen below, LME warehouse stocks are not that high.

Another part of the problem might be the Chinese. They have been a perpetual thorn in the side of the West with on-again/off-again policies in this metal. This makes planning very difficult. In November of 2014, China cancelled export quotas (25,000 t) for molybdenum for 2015. This came after a World Trade Organization panel concluded in March that China violated the organization's membership obligation by restricting exports of molybdenum. Unfortunately, more Moly exports from China is exactly what the hard-pressed miners in the West do NOT want to see.

Those is the Moly space that were living in hope of higher prices had been hinging this theory upon a potentially tighter Moly supply environment given that major North American sources of supply in 2014 (the Thompson Creek, Endako, Mineral Park mines) representing around 40 mn lbs of annual production will be largely out of the market in 2015.

**Conclusion**

Moly is a metal that has not even been able to give a glimmer of hope to its followers in recent years. Most metals have staged rallies then flopped back (while maybe making some ratchet –like move upwards from lows). Moly has provided no such solace. The result is that there are no primary Moly wannabe juniors out there. Like confessing to have leprosy, the faster way to clear a room of investors is to say that one is going to pursue a trajectory as a Moly miner. On the larger scale there are some names like General Moly caught in an eternal holding pattern, while Mercator the owner of Mineral Park went bust and Thompson Creek, the one-time champion of the Moly space, is gradually exiting stage left through putting mines on care & maintenance and others reaching the end of their LOM. Freeport has its Climax mine in cold-storage and that might be the first cab off the rank in the event of a Moly turnaround mainly because there no other potential mines even vaguely likely to get into production with either:

- Three years of sustained better prices
- Those better prices being $13 per lb or higher

Thus we could say that Moly is one of the most extreme examples of feast or famine. There is likely to be an extreme supply crunch but no-one is betting on that being very soon.

# Ecclestone’s Mining Post-Mortems: How the Mighty Have Fallen

Maybe it’s a pre-Summer rush but there seems to be a high and rising death toll in the mining space in recent weeks. The last fortnight has seen both Midway Gold and the long-wounded Molycorp succumb to their debt burdens and calling for protection from creditors.

These events remind us of the old philosophical issue of “If a tree falls in a forest and no one is around to hear it, does it make a sound?” Such is the focus of investors upon other things that the demise of a miner doesn’t even merit a corporate tombstone these days.

It is interesting that both of the recent victims were US-based where escaping the pressure of one’s creditors is not as hard as elsewhere but where also Chapter 11 is not a whole unpleasant experience compared with insolvencies elsewhere. In so many cases (including most of those I shall look at here) it has been excessive or unserviceable debt that has pulled the companies under. Canadian miners are accused of many faults but largely the one they eschew is piling on too much debt (unlike their ASX brethren who never see a loan offer they can refuse). And the Canadians have shown themselves to be smart in that respect because the 2008 crash, for instance, took down a bigger swathe of Australian small- and mid-size miners with heavy debt burdens than it did in Canada. Taking on debt is much easier in the US but escaping the consequences when it can’t be paid is less simple and the Grim Reaper comes a’knocking.

**Molycorp – Vanity Unfair**

On Molycorp I shall not say too much as colleagues are already sharpening their scalpels for the dissection. The company has been a textbook case of what not to do. Unlike companies that might have debt burdens that are large but bear some relationship to the value of assets, Molycorp in contrast appeared to be all debt and little substance by the time the denouement of its story arrived. It's not game over by any means as equityholders will exit stage left and debt-holders will enter to play the role as new equityholders.

**Midway Gold – Many Years and Many Projects**

The rollcall of the fallen had Midway Gold added to its number in the last week. We had distant memories of this company from having met them many years ago and been impressed by their number of potentially producing projects. If we recall rightly they had four or five.

Fate has not been kind to the company though as it commenced produced earlier this year at its Pan gold mine in White Pine County, Nevada which had opened in March. However a couple of weeks back it laid off its miners then announced it was going into Chapter 11 because in its words gold recovery "has continued to fall short of expectations". It said that it will "restructure its business by attempting to sell non-core assets and resolving various challenges relating to Midway's main asset, the Pan Mine project. The debtors believe that additional time and resources are necessary to successfully maximizing value at the Pan mine. In its restructuring, Midway will be able to explore alternatives to strengthen the company, while addressing the challenges Midway has faced."

Even more unfortunately the company had both NYSE and TSX listings (MDW in both places) and a heavy raft of institutional shareholders (65% held) notably Hale Capital and Van Eck leading the pack. This is not your average retail-only junior expiring in obscurity.

The problem here is obviously debt. Beyond that though, we first encountered this story in 2010 if not before, and here we are five years later that it gets a relatively small mine into production. The powerpoint (dated May) says that $79.1mn had already been spent on Pan and that more millions were required to “complete” the project. It’s not clear if total capex was $86mn or that was the “extra” needed to be spent. With the first two months of production yielding only 4,300 ozs of gold, the expression “throwing good money after bad” comes to mind.

There is clearly an asset (and a collection of interesting projects) to be salvaged from the ruins here.

**Labrador Iron Mines – Victim of the Majors’ Strategems**

The iron ore space has been one of the darker corners of a generally dark mining scene. It is the part of the Mining Supercycle Theory that has suffered the most dramatic fall from grace. The refusal of large Australian and Brazilian players to wind back production has ground smaller producers to dust over the last year. In 2014, the price of iron ore declined nearly 50% to approximately US$66.00 per tonne by late December 2014. The iron ore price has continued its decline in 2015, dropping to approximately US$50 per tonne by the end of March.

The biggest of the lesser victims were Cleveland Cliffs Canadian operations which went into receivership (with negative effects for the Wabush mine and various other major projects) and the demise of London Mining, the London-listed West African iron ore miner. The latter strangely enough also had its demise blamed on Ebola.

One of the lesser victims was Labrador Iron Mines that, in April, went into a Court-supervised restructuring process under the Companies’ Creditors Arrangement Act in order to facilitate a restructuring and refinancing of its business operations. This was a particular blow to regional economy.

LIM did not resume mining operations in the 2014 or 2015 operating seasons, due to the deteriorating iron ore market conditions and particularly in the context of LIM’s previous high operating costs. At the end of 2014 the company had a very significant working capital deficit and had not met certain financial obligations. The CCAA proceedings are supposed to provide LIM with the time and stability to restructure its business, negotiate a restructuring plan with stakeholders, compromise creditor claims, restructure key operating contracts, secure new financing, and otherwise consider restructuring and refinancing options. Hmmm, all well and good.

Labrador was able to rustle up some money when it completed a transaction under the provisions of its Joint Venture with Tata Steel Minerals Canada, whereby Tata acquired LIM’s remaining interest in the Howse Project for CAD$5 million. The sale proceeds were used to fund ongoing operating and stand-by costs, and care and maintenance expenses, and to finance the restructuring.

It’s not the end of the road for LIM, but without a turnaround in the iron ore price in the foreseeable future the question arises as to how much the company should struggle against the inevitable.

**Veris Gold – Too Many Swiss Cooks Spoil the Broth**

The old Yukon Nevada had been sliding towards the abyss for a long while before it finally went over the cliff in 2014. The problem at Veris Gold went back to a financing with Deutsche Bank back in 2011 which had the goal of moving the company forward while not diluting the controlling block of the major Swiss shareholders. Here we have an example of unnecessary debt bringing about a corporate demise.

Despite management that the word “omnishambles” was invented for, the prime asset of the Jerritt Canyon mine and mill remains almost unique and a key playing piece in Nevada power games being one of only three approved refractory roasters in the state. The gormlessness of the crew in the executive suite meant that the company spent a long time unprofitably tolling ore for Newmont, making itself poorer and more dependent in the process. The cashflow squeeze forced it to seek protection from creditors last year.

The game is not over here either as the valuable refractory milling and roasting operation goes on and is a scarce commodity in Nevada due to its environmental approvals and restrictions on building new plants like this. It should be interesting to see what vultures alight upon the corpse.

**Mercator Minerals – a Potential Copper Major Laid Low**

Debt again played a crucial role in the demise of Mercator Minerals, with the heavy burden pushing the company to seek a merger with a Russian group. However the failure of this announced merger with InterGeo had an ultimately fatal effect tipping it into bankruptcy. It is not clear to us what happens next but the Mineral Park property is a long term producer and should be of interest to someone wanting to secure one of the few producing copper mines in the US. The company also owns two properties in Mexico, including the Creston molybdenum project, which I had covered several times back in its guise as the main asset of Creston Moly. It is not clear to us who has a first charge over the assets now that it is in legal limbo.

In late January a Delaware bankruptcy judge signed off on the sale of the Mineral Park mine for $10mn to Origin Mining Co. LLC (an affiliate of Waterton Global Resource Management Cayman Corp.) overruling opposition from creditors (including Trafigura) that argued that auctioning the assets separately would yield a greater return than a private transaction.

This deal freed up $3.5 million in cash collateral for the debtors and Origin assumed $9 million in environmental liabilities. Trafigura had tried to counterbid and had been over-ruled.

**Allied Nevada – How the Mighty are Fallen**

The travails of the company clearly go back a long way because the paling of the company's stock price and market cap began back in late 2012. However those who want to focus on the more immediate causes of its demise would highlight that Allied Nevada had apparently positioned itself badly on the wrong side of a currency swap. Apparently the swap converts Canadian dollars from a CAD$400 million bond, underwritten by Scotiabank and GMP Securities, into U.S. dollars. This precipitated a need to restructure its whopping pile of $543 million in borrowings.

The plunge in the Canadian dollar against the US dollar over the last year compounded the problem, once again showing the folly of corporate treasurers being MBA holders rather than practiced streetfighters in the realities of the mining world. So in recent months Allied Nevada had to draw down on its $75 million short-term loan as its liability on the swap grows as the Canadian dollar depreciated.

The troubles with its out-of-the-money currency swap have exacerbated the company's cash-flow issues as it sought to build out its Hycroft gold and silver mine in Nevada.

As the swaps liability bloomed the company had to post the equivalent of 22% of its mark-to-market liability on the swap to two banks that serve as counterparties. This gradually consumed all the cash it had available. The requirement came into force in December 2013 when two banks pulled out as lenders of its revolving loan. When they left, the security they held as lenders couldn't be used as collateral anymore for any swap liability the company incurred.

With the swap being public knowledge the shorters moved in for the kill with the result that, according to Bloomberg, Allied Nevada was the most-shorted publicly traded stock among gold miners. This situation was not helped by the eternal travails of the gold price and ongoing disappointments at the Hycroft mine.

The company is in the midst of its restructuring having flung off all its exploration assets to a hedge fund just last week in the campaign to reduce debt.

**Great Western – Another Debt Victim**

I have written on this sad story before so will not rehash but this was not just a case of too much debt but debt that was taken on without adequate attention being paid to the terms and their implications. This company’s demise has removed from public eyes the state or progress on Steenkampskraal which had been one of the frontrunners in the Great Rare Earth Race. Whether it ends up in the glue factory, as mortadella or a stealth performer shall not be immediately apparent.

**Conclusion**

It is interesting to compare the current events to the mass die-off of dinosaurs that occurred after a meteorite or comet supposedly hit the earth in prehistoric times. As can be seen from some of the examples I have given here it’s not only the brontosaurs, but also some of the smaller species, that have been sent to an early grave.

The examples we have used here have largely strapped on the suicide vest and blown themselves to smithereens in a very public way. The vast number of TSX-V and ASX juniors, that are also financially stricken, could best be compared to those tiny insects that fly into the ultra-violet bug lamps and fizzle without anyone much noticing. The Grim Reaper does not even bother to include them on his rounds.