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Resource plays: Raising capital the Canadian way

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Here's an upbeat take on Canadian capital markets, courtesy of a company you've probably never heard of: **Gleichen Resources**.

At a time when there's much hand-wringing about Canada's ability to nurture great businesses, there's something to celebrate in the way this country backs emerging resource plays. There's also a lesson that can be applied to other sectors, such as technology.

Gleichen dropped $150-million (U.S.) last week to buy a controlling stake in the Morelos gold project in Mexico from **Teck Resources.** This is all part of Teck's ongoing and extremely successful yard sale: Odds and sods are being sold to help the mining company pay down debt taken on to buy coal play Fording.

Gleichen made this bid as a shell company, with a handful of proven executives, but no track record.

This is what's encouraging about doing business in Canadian resources: Mining and energy executives who have shown they can turn moose pasture into productive properties get the benefit of the doubt when they ask for the capital needed to turn the trick again.

Top brass at Gleichen earned their spurs at senior companies: CEO Fred Stanford was at Inco, board member Terry MacGibbon founded FNX Mining, and there are directors from Anglo American and law firm Fraser Milner Casgrain.

Investors were willing to back this team on their new venture, despite considerable uncertainty around the project, as Gleichen pulled in $200-million with a private placement of special warrants done in October to fund the Morelos purchase. Macquarie Capital Markets Canada, BMO Nesbitt Burns and GMP Securities led that financing.

In other jurisdictions, even supposedly resource-friendly markets such as Australia, Gleichen could never have raised this much cash this early in development of a project on terms this generous to the company and its existing shareholders, according to one of the bankers who worked on that October financing.

In Canada, long experience with resources translates into a deep pool of investors willing to back proven managers with promising properties. But here's a question: Does this approach actually make money?

For an answer, let's shift our attention to the oil patch, where Sayer Energy Advisors recently published a report on junior oil and gas company recapitalizations.

These are deals that see sick and weak energy plays culled. New management arrives at these failed public companies, typically from energy plays that have been acquired. They inject cash, and shift the focus. Sayer associate

Crystal Holdershaw took apart 10 of these "recap" transactions over the past year - there were four in November alone - and found that new blood translated into terrific performance.

"The market has rewarded all of the recapitalized companies with an instantaneous increase in share price. The increases have ranged from 20 per cent to 300 per cent once the initial excitement of the news has settled down," Ms. Holdershaw said. "These recap companies are rewarded with higher trading multiples as investors continue to place bets that these management teams that have added shareholder value in the past will do it again."

The conclusion to be drawn from these deals is that strong management teams at resource plays have no trouble attaining capital, and investors are rewarded for backing proven winners. If this optimism could migrate to technology and other growth sectors, there would be far less concern about venture capital financing in this country.

Athabasca share offering

There's a new pure play on the oil sands coming to public markets, as **Athabasca Oil Sands** prepares to go public next year in the wake of a $1.9-billion endorsement from PetroChina.

Privately owned Athabasca owns stakes in two northern Alberta projects, called MacKay River and Dover. The company is one of the largest lease holders in the region.

In August, state-owned PetroChina International Investment Co. announced plans to acquire a 60-per-cent stake Athabasca Oil Sands for $1.9-billion.

That purchase was seen as a watershed transaction because it showed state-owned enterprises plan to be major players in the oil sands. The larger trend here is an ever increasing number of Asian government entities transforming U.S. dollar reserves into direct holdings in global resource companies.

Athabasca Oil Sands is expected to go public in an underwriting that features investment banks Morgan Stanley and GMP Securities in prominent roles, sources say. The size and pricing of the offering have not been set.

The largest pure play on Alberta's reserves is Canadian Oil Sands Trust, which owns a minority stake in the Syncrude project. That stake may expand in the not-too-distant future, as Canadian Oil Sands Trust is expected to bid on the 9-per-cent Syncrude holding that's been put on the auction block by ConocoPhillips.

OPTI Canada and UTS Energy also own minority stakes in oil sands projects, with Nexen and Suncor respectively as the senior partners. Athabasca Oil Sands should command a premium valuation to these two companies, as it controls its properties and has the financial backing of a deep-pocketed strategic partner.

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