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Anglo Pacific Benefits From A Shrewd Mix Of Mining And Energy

Bad luck on London listed Anglo Pacific Group that it switched brokers from Brewin Dolphin in Glasgow to Numis Securities just before a significant slice of the Numis mining team moved to pastures new. Not that it made much difference to the share price of Anglo Pacific as it rose from 139p towards the end of August when it announced the acquisition of Advance Royalty Corporation in a pretty straight line to the current 186p. Advance Royalty Corporation is a private Canadian company with royalty interests on some properties in the Athabasca Basin which is a proven production area for uranium. The properties covered by the royalty interests total approximately 4.8 million acres and are currently operated by a number of listed Canadian companies including ESO Uranium Corp, Titan Uranium Exploration Inc., Magnum Uranium, Ditem Explorations, Terra Ventures and Bayswater Ventures.

The fact that the 3.125 million shares issued to find this deal were priced at 139p confirms that this deal rang the bell for the start of the share price's significant advance. Anglo Pacific has been increasing its exposure to uranium for some time as evidenced by the pressure exerted on North Australian Diamonds to get to work on its uranium properties and the increasing shareholding in Firestone Ventures where Lori Walton is looking at new uranium opportunities. Mind you, chef executive Brian Wides is a canny investor as behoves his training as an accountant, and he likes his uranium exploration companies to keep one foot on the ground. Hence North Australian Diamonds has its Merlin kimberlite diamond project in the Northern Territory and Firestone Ventures its Torlon Hill zinc project in Guatemala.

But it was not royalties alone which got the share price on the move. Only a week later Anglo Pacific came out with its interim results to the end of June and this really made investors sit up, even though the company is known for being sparse with its statements. In this case Peter Boycott, the chairman, was positively verbose, and no wonder as metal prices remained firm during the period, mining markets performed well and pre-tax profits increased from £12.4 million in 2006 to £15.1 million this year, pushing earnings ahead by 26 per cent to 13.9 p per share.

At this time of the year Anglo Pacific has to adopt a conservative attitude to its income from coal royalties in Australia, but the signs are encouraging. The prices of both coking and steam coal have been firm and spot prices for coking coal have been at considerably higher levels than the long term contract rates of around U$100/tonne used in the past two years, according to Peter Boycott. These coal royalties come from the Kestrel and Crinum coal mines in Queensland - operated respectively by Rio and BHP – and they contributed £4.6 million compared with £5 million this time last year. However the greater proportion is usually received in the second half and the fact that these royalties have been valued independently at £59 million compared with £48 million at the end of have been valued independently at £59 million compared with £48 million at the end of last year has to be a good sign.

The dividend payments tend to be geared to income from these royalties, so it looks as if shareholders can expect a significant increase on the payments received last year. The interim dividend is not paid until next month so that directors are clear how the coal operations are performing and it is worth noting that they opted to take shares rather than the final dividend so must have been convinced that capital growth was the name of the game.3.75p per share paid last year. Certainly the company is very robust financially with no debt and nearly £13 million in the bank at the end of June. Add to this the fact that the company's private mining interests and quoted stakes in mining projects were worth £87.1 million compared with £50.2 million a year ago and it is clear why the directors are so confident.

Shrewd fund management is at the core of the business and at the end of June quoted equity interests disclosed on the LSE, ASX and TSX, where initial equity stake disclosure levels are 3 per cent, 5 per cent and 10 per cent respectively, amounted to £63 million in nineteen different holdings. The balance of quoted holdings of £22 million is made up of a further thirty incubator investments and the company tends to avoid commenting on individual holdings. However gold predominated in the portfolio with 33 per cent followed by platinum group metals (19 per cent) uranium 16 per cent and coal 11 per cent. No excess over cost is given to the substantial private coal and other mining interests in British Columbia and Australia, but investors can ponder the value of the joint ventures on the Groundhog deposits and on a potential new coal area in Australia.

This is just the sort of investment for those who seek both capital and income growth and are chary of committing their funds to the risks of exploration.