CAPITAL

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Foreign mining firms take AIM at London

· The junior market is scoring success in its drive to attract new companies. Report by **Lucinda Kemeny**

DIGGING for gold in Egypt sounds more like an activity for Indiana Jones than for the Alternative Investment Market (AIM). But for small mining companies looking to raise money for overseas exploration, London has become the place to be.

Over the past year, 20 companies involved in drilling for oil and metals have joined the junior market and the trend is set to continue.

Six floats are already planned for the rest of this year and another seven companies are thought to be considering one.

But buyers are being warned to beware. Traditionally seen as a volatile sector, small mining stocks can be a dangerous bet. Many of them raise money for drilling in remote corners of the world where there may or may not be anything to show at the end of operations.

On the road: Brickles, inset, is seeking business in Australia

It all started when the London Stock Exchange and AIM decided to encourage overseas companies to list in Britain. Mining firms were obvious candidates for wooing, given that the Canadian and Australian exchanges have been their natural homes.

Simon Brickles, head of AIM, is at present on a road show across Australia and is talking to hundreds of companies in Sydney, Perth and Melbourne about joining the London market.

Charlotte Crosswell, head of business development at the Stock Exchange, says: "We have been promoting London's strength and it has had a snowball effect.

"Gold prices are also doing well, and this has put the spotlight on mining valuations."

The successful sale of Brancote Holdings, a gold-mining company, to America's Meridian earlier this year has also given the sector a boost.

Brancote delisted its stock on August 12 at 185p, having floated in 1997 at below 50p. It was bought for £210m.

But even without the intervention of the Stock Exchange, new arrivals claim that London analysts and investors take a far more international view of businesses than their exchanges back home.

Centamin Egypt is one example. It joined AIM in December and found investors for its shares even though its flagship operation is the Sukhari project in Egypt.

Josef El-Raghy, who joins the board as managing director tomorrow, says the company's main listing in Australia was an accident and turned out not to be suitable.

"We needed to look towards a capital market that identified with the project area. The natural fit was London," he says.

He says Barclays is the largest foreign bank in Egypt and Britain is the biggest foreign investor in the country. Having closer physical access to shareholders was also a factor.

However, even though Centamin decided on London, El-Raghy says the company had a few hurdles to jump before Williams de Broe, the investment bank that sponsored the float, was prepared to take it on.

"We did encounter scepticism because a lot of companies are a bit of a punt with fast talk and big ideas. But we took the bank to Egypt where we had about 70 people working. We had already spent about £7m on exploration and we had a proven resource," he says.

Scepticism aside, Mike Jones, head of resources research at Canaccord Capital, says many mining companies have been forced overseas because their own markets are not interested in them.

He believes London investors have a much better understanding of mining assets, which opens the door more readily to new listings and capital raising.

As with any fad, however, the worry is that some bad apples could ruin the reputation of everyone.

At flotation, mining companies raise less than £5m on average, so obtaining cash in an economic downturn is easier for them than for other companies. However, investors are being warned to be careful about which horses to back.

Bob Catto, director at Williams de Broe, says some companies, such as Centamin, ZincOx Resources and Celtic Resources, have a natural affinity with London.

Celtic Resources is soon to list with a market value of about £35m.

Catto says prospective investors should do their research and be thorough in reading a company's prospectus. They should pay particular attention to the consultant's report and what it says about the prospects for exploration.

"Consultants are much more careful about what they are prepared to say. There are nothing like as many spivs in mining as there were in technology but success always attracts bandwagons so there are some which are undesirable," he says.

The message to investors is to remember, with Shakespeare, that all that glisters may not be gold.