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Analysts' Ideas of the Week - Disappointing Start to 2013 for the Junior Mining Sector

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Disappointing Start to 2013 for the Junior Mining Sector

A new PwC report found that there were no mining related initial public offerings (IPO's) on the TSX, or TSX Venture Exchange, during the first quarter of this year. The only mining related IPO to date in 2013, was on the Canadian National Stock Exchange for a total of $250,000.

This is compared to 12 mining related IPO's between the TSX, and TSX Venture, during the first quarter of 2012. The drastic drop in IPO's is reflective of investors' current risk aversion to the junior mining sector. The sector has always been high risk, however, it appears that more investors than ever are taking their money elsewhere. This has led some companies to seek out other options such as debt financing or royalty streaming agreements.

The strongest repercussions for the Canadian mining sector include an unprecedented number of companies delisting from the major exchanges, and/or stoppages in exploration programs along with employee layoffs as companies try to stem cash seepage. Fewer companies running exploration programs will reduce advancement of greenfields exploration projects. This in turn will lower the chances of discovery of new mineral deposits, and if there are no new deposits, then there will be no new mines.

The lack of work by junior explorers could also have longer term negative effects on the mid-tier and major mining companies as they typically depend on the juniors to conduct higher risk stages of project development that lead to deposit discovery. This covers grassroots exploration and drilling to bringing a property to the Pre-

Feasibility or Feasibility stage. If new prospects are not being developed, then it reduces the acquisition prospects for majors looking to replace aging assets.

Mining stocks are at all-time lows with approximately 31% of all Canadian juniors needing to raise capital in the next 3 months if they want to stay afloat, according to the PDAC. Although this is a dire time for those working in the mineral exploration and mining sector, it could be an opportunity in disguise for investors willing to take the risk. Companies are hitting all-time lows, which presents potential for long-term investors to buy in cheap and wait for the market to recover.

As always, do your homework on a company before investing. This includes checking out their cash position, expenses (including what they are doing to reduce costs), plans for the next 12 months and any upcoming financing. As a place to start, check out my list of red flags in the April 1, 2013, *Analyst Ideas of the Week* and the FRC Top Picks, both available on the FRC website.

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Clean energy future not so sparkly

The excitement and investment in clean energy over the last 5 years has been evaporating as headlines of struggling clean energy companies dominate the industry. BP (NYSE: BP) just announced that they are looking to sell their estimated $5.2 billion stake in a portfolio of wind energy developments throughout the United States. This comes as Solar panel maker Suntech (NYSE: STP) was forced into bankruptcy recently. Lets look at industry performance followed by my outlook for the industry.

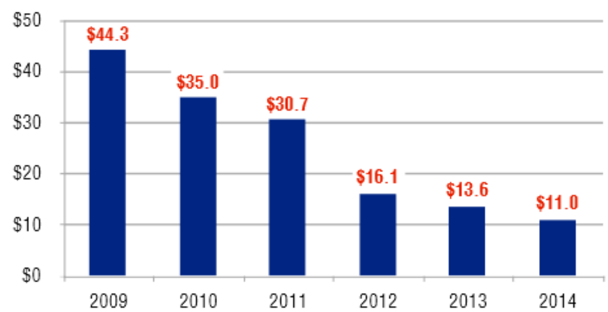
To get an idea of the returns of a diverse range of companies in clean energy, I looked at clean/alternative energy ETFs in comparison to the S&P 500, and Russell 2000 U.S. small cap index. The 1 and 2 year returns are shown in the table on the next page.

Symbol	Name	1 Year	2 Year
PZD	Powershares Cleantech Portfolio ETF	8.5%	-13.7%
TAN	Guggenheim Solar ETF	-26.5%	-78.9%
KWT	Market Vectors Solar Energy ETF	-27.0%	-79.9%
ICLN	S&P Global Clean Energy Index Fund ETF	-14.5%	-58.2%
PBW	Powershares WilderHill Clean Energy Portfolio ETF	-17.9%	-58.3%
GEX	Market Vectors Global Alternative Energy ETF	10.4%	-42.4%
PBD	Powershares Global Clean Energy Portfolio ETF	0.8%	-44.6%
GPSC	S&P 500	11.6%	17.1%
RUT	Russell 2000	13.1%	8.5%

As can be seen from the above chart, all the clean energy ETFs were down over 2 years, with three rebounding and having a positive 1 year return. The two non-clean energy indexes had strong returns over the 1 and 2 year periods. Why has clean tech struggled over the last two years, and what does the future of the industry look like?

Many of the above ETF's had a large composition or some exposure to the solar market. As can been seen by the solar ETF's, and Suntech's recent bankruptcy, the industry has performed poorly and is reflected in the other ETFs returns. However, I think that the major reason for the decline in clean energy is the decreased investment by governments and private investors.

Government spending on clean energy in the U.S. has decreased from $44.3 billion to $16 billion in 2012. The following shows past Federal spending in clean energy in the U.S and projected future spending.



**In billions (Source: The Breakthrough Institute)*

The Canadian government, in its most recent 2013 budget, planned to spend $325 million over eight years on clean energy. This is less than half of what a coalition of government groups recommended (Pembina Institute). According to Bloomberg new energy finance, venture capital and private equity investment fell by 34% in 2012, to $5.8 billion, the lowest since 2006. Public market investment dropped 57% to $5.1 billion, the lowest since 2004.

Although clean energy investment is "on trend", and a responsible investment, the future outlook of the industry will continue to be challenged by the inability of companies to access capital. The growth of a new industry is dependent on outside capital because the majority of companies are not yet profitable. Federal governments have also been subsidizing the use of clean energy products to make the pricing more competitive, but without these subsidies, most consumers will choose the less expensive option.

Without the easy access to capital, I do not anticipate a rebound, but a continued investor aversion to the industry. However, this will present opportunities to invest in some clean energy companies with attractive fundamentals, and a positive outlook, at lower valuations as the industry is beat down. The data above show that when investing in clean energy, it is very important to pick and choose projects very carefully, incorporating thorough research like ours.

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Edmonton housing market is expected to take off

In the residential real estate market, we believe Edmonton is the second best market in Canada, after Calgary, to invest. The bullish outlook for Edmonton relative to other Canadian markets is driven by solid economic growth in Alberta's resource sector; as net job creation, low unemployment, economic stability and low rental vacancy rates positively contribute to boost the demand for homes in the Edmonton area. According to the CMHC, it is anticipated that in 2013, job growth will remain moderately positive (2% employment growth). Also, the unemployment rate will continue to be lower than other jurisdictions in Canada (4.7%). It is forecasted that migration within the province will attract people to Edmonton, but improving employment opportunities in Ontario, and British Columbia, is projected to curtail some interprovincial migration to Alberta (net migration to the city will decrease by 15%).

CMHC forecasts that in 2013, and 2014, the average MLS price will be $342,000 and $351,000 respectively; which indicates an increase of about 2.4%, and 2.6%, compared to 2012, respectively. In March 2013, the Realtors Association of Edmonton reported that compared to the same month in 2012, all residential prices (includes single family detached, condominiums, duplexes and row-houses) were up 4.3%; which was higher than the CMHC average forecasted price in 2013. In the same month, the average price for a single family detached home, and condo, were $416,739, and $246,574; which were up by about 4%, and 16% since January 2013.

Regarding the rental market, CMHC expects that the rental rate in Edmonton will rise by 3.6%; much higher than the average rental rate increase expected across Canada (2.2%). One the other hand, the vacancy rate is estimated to also slightly increase, as the strong number of rental apartment starts in 2012 will result in a higher level of rental supply in 2013. The expectation is the average apartment vacancy rate will increase from 1.7% in 2012, to 1.9% , and 2.1%, in 2013, and 2014, respectively.

Considering all the above factors, going forward we believe, the chance of bounces or bubbles in the Edmonton housing market are slim. We believe the above average growth in rent will continue due to economic growth in the area, and ultimately, this will support the positive trend in housing prices seen at the beginning of the year, and lead to higher than expected growth in 2013. In 2014, we expect prices will increase even more. At FRC, we cover a number of exempt market securities that can give investors ideas on how to gain exposure to real estate in this city.

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