

MINING SECTOR VALUATION IS ROCK BOTTOM

BY GERRY BROCKELSBY, CFA, CHIEF INVESTMENT OFFICER

As noted in the chart below, Canadian mining stocks are trading at valuation levels only seen in 1982, 2001 and 2009, all periods of extreme stress on the industry caused by depressed demand due to recessionary economic conditions. In the current period, demand has been slowing but has not declined to levels experienced in the previous three periods. The issue today is an abundance of supply caused by the over investment in the 2005 to 2011 period. Note the capex spending on the bottom section of the chart below. As in these past periods, the fundamentals eventually improve and the mining industry recovers as the economic cycle advances. Capex spending has already declined significantly which will in time reduce the supply of metal commodities. At current valuation levels, we believe that the challenges facing the mining industry have been fully discounted in the market place. As the market sentiment improves, we expect that a modest improvement in commodity prices could have a very positive impact on the price of select mining stocks due to the attractive valuations presently.

CANADIAN MINING SHARES: PRICE-TO-BOOK and WORLD MINING CAPEX



Source: Thomson Reuters Datastream, Canaccord Genuity estimates

The Marquest Resource Insight is not intended to be relied upon as a forecast, research or investment advice, and is not a recommendation, offer or solicitation to buy or sell any securities or to adopt any investment strategy. The opinions expressed are as of December 2015 and may change as subsequent conditions vary. The information and opinions contained in this paper are derived from proprietary and non-proprietary sources deemed by the author to be reliable. The information is not necessarily all-inclusive and is not guaranteed as to accuracy. As such, no warranty of accuracy or reliability is given and no responsibility arising in any way for errors and omissions is accepted by Marquest, its officers, employees or agents. This paper may contain "forward-looking" information that is not purely historical in nature. Such information may include, among other things, projections and forecasts. We caution you not to place undue reliance on these statements as a number of important factors could cause actual events or results to differ materially from those expressed or implied in any forward-looking statement contained herein. All forward-looking statements are subject to change and are provided in good faith but without legal responsibility. All rights reserved.

TORONTO
161 Bay Street, Suite 4420, P.O. Box 204
Toronto, ON M5J 2S1
T: 416.777.7350 or 1.877.777.1541
F: 416.777.7362

MONTREAL
1155 Henri-Bourassa Boulevard, Suite 905
Montreal, QC H3B 3A7
T: 514.227.0666 or 1.866.687.9363
F: 514.875.8188

VANCOUVER
1055 West Hastings Street, Suite 300
Vancouver, B.C. V6E 2E9
T: 604.895.7281
F: 604.684.6024

CLIENT SERVICES
T: 416.365.4077 or 1.888.964.3533
F: 416.365.4080
clientservices@marquest.ca
www.marquest.ca