



Net-Nets on the TSX Venture Exchange

Description

While several global stock markets have had a fine start to 2013, the [Canadian market has lagged](#). Lagged is an understatement if we consider the performance of the TSX Venture Exchange. The Venture Exchange has declined by 10.3% thus far in 2013 and is down 30.4% over the past year. A heavy allocation to resource companies is the reason for such poor performance.

The TSX-V is not normally a place that I would recommend trolling for ideas. The market is long on promotion and short on financial results to back it up. However, given the drubbing that has occurred, should the resource space come back into vogue, many stocks listed on this exchange are likely to produce jaw dropping returns.

The screen

Because so many companies on the TSX-V tell the same story (huge undeveloped resource, loads of exploration potential, etc.) differentiation is tough. To identify some interesting candidates, I relied on a method introduced by Ben Graham, the father of value investing.

Back in the day, Graham looked for companies known as net-nets. That is, current assets minus total liabilities were greater than the company's market cap. The thinking was that stocks trading below the value of their net current assets were severely mispriced. Net-nets are rare and only really come out of hiding in times of distress.

What'd we catch?

While the net-net idea was the underlying theme, the first screen attempt had an added twist – the company had to have produced positive cash from operations over the past year. This would help to alleviate the fear of cash burn that is ever-present with junior miners. This twist produced just one company, tabled below:

Company Name	Current Assets (\$M)	Total Liabilities	Net	Market Cap'n

AQM Copper (TSXV:AQM)	9.56	1.27	8.29	5.81
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Source: Capital IQ

AQM has a copper-gold property in Peru that it is trying to develop through a 50/50 joint venture with Teck Resources. Nice to have a deep pocketed partner but two things jumped out when I had a quick look at the financials. One, Q4'12 results have still not been released, even though last year they were out in February. The CFO appears to have recently resigned so this could be the problem. Also, the available Q3 results have not been audited. These mining stories carry enough dirt without taking on the risk of financial mismanagement.

A few more

Removing the cash flow constraint produced a total of 65 metals and mining companies that have net current assets greater than their market cap on the TSX Venture Exchange. This compares to 14 net-nets in the metals and mining space on the S&P/TSX Composite (that's 14 more than I had expected to turn up).

Provided below are the four net-nets with the largest gap between net current assets and market cap:

Company Name	Current Assets (\$M)	Total Liabilities	Net	Market Cap'n
Canaco Resources (TSXV:CAN)	91.90	1.75	90.15	80.40
Ryan Gold Corp. (TSXV:RYG)	26.50	4.86	21.64	13.50
Kobex Minerals (TSXV:KXM)	36.70	0.26	36.44	28.60
Radius Gold (TSXV:RDU)	20.6	0.193	20.41	13.00

Source: Capital IQ

All of these companies are strictly exploration stage. The other common theme is that cash makes up the majority of current assets. Exploration activities burn cash and if the financial markets don't open up, each has a relatively short life expectancy. Based on cash burn over the past 12 months, Kobex and Radius are in better shape than the other two.

The Foolish Bottom Line

If you are drawn to the TSX Venture Exchange for the speculative portion of your portfolio, the names provided may serve as a jumping off point. The big takeaway here however is to evaluate the balance sheet and cash burn of whatever names on the Venture Exchange you may fancy. Please! One day's

apparent bargain can end up on tomorrow's scrap pile if the company runs out of money. Proceed with caution!

While these junior mining names are entirely speculative, we have created a special report that outlines 5 Canadian corporations that are anything but. Each name has a history of creating significant shareholder wealth with very little risk. This report can be yours, free of charge, by simply [clicking here](#)

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Fool contributor Iain Butler does not own shares in any of the companies mentioned in this report at this time. The Motley Fool has no positions in the stocks mentioned above.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSXV:RDU (Radius Gold Inc.)

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