# BOOK REVIEWS

## THE MINING VALUATION HANDBOOK*

by

**Dr Victor Rudenno**

Wrightbooks Pty Ltd, Melbourne, 1998, 247 pages

As Robert Champion de Crespigny notes in his foreword, *The Mining Valuation Handbook* "unravels many of the mysteries and valuation techniques employed by resource industry specialists and analysts".

The methodology and techniques of valuing mining projects and mining companies have not changed appreciably over the past forty years. It was in the early 1960s that the acquisition of Australian mining companies by offshore corporates was in its heyday. That was shortly before the time of the new Pilbara iron ore mines and Utah's Bowen Basin coal mines, and thereafter the era of Mineral Securities. Over the 1960s, the method of discounted cash flow valuations became the cornerstone for mining project appraisal, valuation and acquisition.

There have been several refinements over forty years - not the least the appearance of the Foreign Investment Review Board - but mining valuations mostly are still along the same lines. Classical methods along with updating refinements are set out in the new volume by Dr Victor Rudenno. The author is well known in the resources sector and in the mining investment community for his contributions in the field of education in mining and mining investment, and in recent years as an applauded analyst and as a resources corporate finance specialist.

The book covers the basics and the refinements, which include use of the Capital Asset Pricing Model, risk and sensitivity analysis, and probabilistic methods. There is a good chapter on valuation and pricing techniques. The handbook also includes numerous tabulations useful to readers on the fringe of mining, covering commodity profiles (A to Z), the different State royalty regimes and conversion factors, as well as a good glossary of terms. The book makes extensive use of a wide range of case study examples.

Commodity price hedging, mineral resources and ore reserves (the stuff of the JORC Reporting Code), cutoff grades, and the estimation of capital and operating costs are covered in a sufficient and balanced way for this type of textbook.

There is a good list of 25 reference sources going back, in one case, almost 450 years to the classical latin text that was later translated by that mining engineer turned President, Herbert Hoover. Hoover managed the Sons of Gwalia mine in Laverton 90 years ago, as well as the 600 year old lead-zinc-silver mines in north-east Burma thereafter, both in his pre-Presidential days.

What appeals about this book is that it is well structured, easily read and contains information that is valuable to a wide range of readers involved or interested in mining, from undergraduates to seasoned experts. The book is not one to be read in one burst, except perhaps as a sound lecture series textbook; rather, it will probably be well thumbed over many years as a steady reference work.

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A danger in the book is that it provides a level of detailed disclosure as to techniques and methodology that will enable non-mining experts - possibly even members of AMPLA - to prepare "good-looking" valuations of mines and mining companies. For example, it explains how smelter schedules and discount rates are calculated, and the differences between NPV derived fundamental values and stockmarket values.

To this reviewer, there were some disappointments. With the primary driver in all mining project cash flow projections being revenue, that the five page chapter entitled Commodity Price Forecasting did not actually detail any forecasting methods or techniques is a conspicuous omission. This may be put right in a future edition. Another missing item is any mention of the *Valmin Code*[1].

The book touches indirectly on the all important aspects of information access and the degree of due diligence with which the valuer is able to prepare his or her valuation.

For the breadth and depth of its content and its utility, in mining valuation terms Dr Rudenno's volume is assessed as undervalued and as a recommended buy. It will prove useful as a reference source to many members of AMPLA, and to many other budding mining specialists.

1 The Australasian Institute of Mining and Metallurgy's *Valmin Code*, like the JORC Reporting Code for mineral resources and ore reserves, governs all mining expert valuation and related reports for prescribed ASIC reports, such as ss 623 and 648 reports under the *Corporations Law*, and prospectuses. That code means that reports so prepared are likely to be much more bullet-proof and thereby probably more reliable than many other types of reports available to investors. The Valmin Code has been mandatory for mining experts since 1 July 1995, with an updated edition of the code applicable since 1 April 1998. A strength of the Valmin Code lies in its enforceability, with the related access to professional discipline.