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Takota's Scott Leckie to make push for action at Melior Resources

 Barry Critchley | Financial Post 19/11/13 4:57 PM ET

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Scott Leckie is a principal at Takota Asset Management, a Toronto-based investment management firm that's an adherent to intrinsic value investing and margin of safety, two concepts pioneered by Benjamin Graham.

Leckie has been implementing those concepts for more than two decades: typically he finds an undervalued situation and gives management time to get the share price closer to intrinsic value. Takota also uses that approach when it buys a shell company whose main asset is cash or near cash and which trades at a substantial discount to that cash.

"We believe that a capable management overseen by a responsible Board can create financial leverage for shareholders by taking that cash and investing it in a business opportunity thereby turning our $1.00 of cash purchased for $0.50 in to $1.50 or $2.00 in value," said Leckie who is not prepared to give management an unlimited amount of time to create value.

Indeed, Leckie is preparing to push that approach with the management and board of Melior Resources Inc. at the company's annual meeting Wednesday in Toronto.

Leckie, who owns about 15% of Melior – the new name for a company once known as Coalcorp – argues that management has had enough time to find a use for the almost $23-million in cash and near cash held by Melior. Over the past 18 months Melior, which trades at about half the value of its cash balances, has completed one small transaction while another smaller deal was announced – and then terminated?

Leckie argues that Melior's objective in investing the $23-million into a project and gaining control "is a long shot. A good project with low political risk likely will not have any difficulty finding the last $23-million to achieve completion without the current owners having to give up control of their project," notes Leckie. Accordingly, the universe of possible projects being looked at by Melior is either lower quality or politically risky."

Leckie's efforts to have Melior wound up are frustrated by many factors, one of which is the seeming lack of interest by major shareholder Pala Investments which has a 55% stake. One year back, Pala made an unsolicited offer to acquire the 45% stake in Melior that it didn't own at $0.11 a share. While Melior rejected that offer, Pala acquired enough shares to give it control. "Why Pala let's this go on I cannot imagine," noted Leckie.

In Leckie's mind, the best course of action is to wind up the company and distribute the net proceeds to shareholders. That plan would achieve two objectives: it would give more cash to shareholders than they would receive by selling their interests in the market; and it would stop the company wasting its precious resources.

Leckie has another beef about Melior: none of the four directors up for election at Wednesday's meeting own any shares. "None of the Board own any shares and are therefore not incented to act like principals but rather as agents," notes Leckie, adding share ownership by directors "would give the minority shareholders some comfort that this Board and management will act like principals and not simply as agents as they pursue their preferred agenda."

The potential issuance of options is another matter that irks Leckie. In fact, as Melior's second largest shareholder he wants a firm commitment that Melior won't issue options (one of the items on the agenda) to insiders at a price that's below the liquidation value of the business irrespective of the current share price.
