

The Australian

Rare earths deliver, now watch Caspian oilfields

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SUCCESS in this resource investing business often amounts to picking the next big trend. Easier said than done, of course.

Over its life span, Pure Speculation has laid down a number of markers. Your correspondent starting banging on about rare earths back in 2005 but few took any notice, and we carried that obsession into this column.

Yawns were heard across Australia when we began talking up phosphate and potash. Likewise with our ongoing tin obsession. Yet tin has been the best performing base metal this year (and, as we reported online during the week, BNP Paribas is now calling a tin price for late next year of \$US30,250 a tonne).

We braved scorn with a belief in gold from the get-go. Silver, too -- and look how that's going.

Not that there haven't been bumps -- and bum steers -- along the way. Best not to mention those, though.

So, with this reminder of past fallibility, and the usual warning of caveat emptor, we throw into the ring the world outlook from the International Energy Agency. It sees the area around the Caspian Sea as the big new energy story.

The main focus is on Turkmenistan, Azerbaijan and Kazakhstan.

The latter will experience the fourth largest growth in oil and gas output until 2035, after Saudi Arabia, Iraq and Brazil.

Last year, the Caspian region produced 2.9 million barrels of oil a day and is expected to peak at around 5.4m barrels a day between 2025 and 2030.

The IEA report would normally have been noted just in passing but for coincidence: the release last week of two broker reports on an oil explorer active in Kazakhstan.

Jupiter Energy (JPR), whose shares last traded at 3.5c, is rated a speculative buy by Patersons Securities. The analysts are impressed by the fact that Russian-backed Waterford Group has taken a 27 per cent stake in the junior, as the fund has made several winning bets on explorers in the past.

Jupiter's main asset is a wholly owned block in southwest Kazakhstan, with one well tested at 360 barrels of oil a day.

Patersons says the success of this well has not translated into any share price gain for Jupiter because of the time it took to get the well online, the amount of money still needed to explore the acreage, the fact that oil must be sold domestically at a discount until a production licence is granted and the need for the market to see further successes on this block.

Waterford is putting up cash and the production licence is expected by year's end. But it all now hangs on well J-52, which is targeting an additional 22 million barrels of oil.

If drilling does hit plenty of black gold, Peter Strachan at Stock Analysis sees a target share price of 10c. He notes Waterford's deep pockets and that the fund is bringing in Russian-speaking staff with experience of Soviet-era wells to help run the operation.

Strachan says shareholders and day traders were unrealistic in expecting the first successful well to provide export sales and self-sustaining cashflow.

This is something for the longer term. He notes that Waterford is looking for a return of between 10 and 20 times on its investment. If there's plenty of oil, that is.

Coal disaster

OF the 10 worst mining disasters ever recorded, all 10 were in coalmines -- the worst being the 1572 men lost in 1942 at the Honkeiko mine in Japanese-occupied northern China.

All but one of the 10 worst involved explosions.

Everyone's minds are now on the poor men in the Pike River mine in New Zealand, but -- once we know their fate -- thoughts of investors will turn to the future of the mine owner, Pike River Coal (PRC), which is listed on both sides of the ditch.

Reports at the weekend have covered some of the problems at the mine -- and chief executive Peter Whittall laid out the failings in considerable detail at the company's annual meeting in Greymouth on Monday -- but soon will come the financial challenge.

As Auckland-based analyst Grant Swanepoel noted in a report released by Deutsche Bank last month, PRC needs to refinance \$NZ25 million (\$19.5m) by December 15. However, while Swanepoel noted that the production downgrade in October was more severe than expected, he raised PRC to a buy.

Of course, the analyst was not to know what lay in the future. And, to make it even more awful for Swanepoel, on Friday, just a few hours before the explosion, he repeated his recommendation.

This followed a site visit by analysts to the Greymouth mine. He noted that the hydro mining equipment was extracting 40-50 tonnes daily against a target of 100 tonnes. But he was impressed by the reliability of the equipment and the fact that progress was being made on the access road.

He said PRC management would be making an announcement before the end of the month on capital needed to cover short and medium term cashflow needs. At 11.50am on Friday (New Zealand time), he was predicting that \$NZ40m would be raised in a debt-equity mix.

PRC last Tuesday updated investors, stressing that the coal was in high demand due to its ultra-low ash content. The company had shipped its second consignment in September, and another 60,000 tonnes was due out by January. Over the life of the mine, it would earn \$NZ4 billion in sales.

All that now, of course, is up in the air.

We noted a surge in trading on Friday afternoon in shares of Bathurst Resources (BTU), which has a coal project on the New Zealand South Island's west coast close to the town of Westport. However, BTU plans to start mining as an open-cut operation. It may well put out a statement aimed at calming the horses.

Hopefuls queue

PAST exploration success is no guarantee of future achievements, but it's not a bad start.

With 850-plus already listed, you'd think we need more resources companies like a hole in the head. But there are at least 29 hopefuls on the ASX list of upcoming floats.

One that could stand out is Sheffield Resources (SFX), which is run by the team that built the former Warwick Resources to the stage that it was acquired by Atlas Iron (AGO) last year.

Sheffield, with Bruce McQuitty at the helm, is seeking to raise \$7m. Its portfolio includes iron ore in the Pilbara and tungsten in the Kimberley region, but the ones that took our eye were mineral sands in the North Perth basin near the mining operations of Iluka Resources (ILU) and talc targets near Rio Tinto's (RIO) Three Springs mine.

Talc has a variety of uses, including paper making, polymers, plastics, paint and ceramics. The ground picked up around Three Springs has been pretty well tied down by majors in the past 50 years, and McQuitty says Sheffield is the first junior to gain a foothold.

He likes talc because it's a dig-and-ship proposition.

However, the thinking at Sheffield is to prove up resources to a stage where a bigger company starts flashing its chequebook, and then move on.

We're still here

THE terrible events in New Zealand squeezed out a planned update on Aussie battlers in Africa. We'll post a detailed item online tomorrow -- there's a great deal happening.

And thanks to all the readers who telephoned or emailed wondering whether Pure Speculation had fallen under the proverbial bus, been given the flick or grown even lazier. It was the last mentioned -- and it involved Paris and Amsterdam.

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The writer implies no investment recommendation and this report contains material that is speculative in nature. Investors should seek professional investment advice. The writer owns shares in Rio Tinto.

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