

Nickel miner explores new territory

IPO watch

Tony Featherstone

The year's first pure nickel float, AusNiCo, is an unusual proposition for investors more used to nickel exploration in Western Australia than Queensland.

Only two ore-grade nickel sulphide deposits have been discovered in eastern Australia in the last 55 years – something AusNiCo wants to change through a \$4 million initial public offer.

It's the latest spin-off from D'Aguilar Gold. Other investments and spin-offs include Solomon Gold, listed on London Stock Exchange's AIM market, and Mt Isa Metals, which listed on the Australian Securities Exchange in 2008 after raising \$7 million.

Solomon Gold shares soared this month from 31 pence to as high as 81p after strong exploration results from its Fauro Island project in the Solomon Islands. D'Aguilar owns 17 per cent of Solomon, whose shares eased to 44p this week.

Shares in gold and base metals explorer Mt Isa Metals, 48 per cent owned by D'Aguilar, fell from a 20¢ issue price to 3.7¢ in 2009, before rallying to 27¢ in the past few months amid stronger interest in its projects.

Mt Isa is exploring in West Africa and northwest Queensland.

D'Aguilar is preparing to float its 60 per cent owned Queensland and US gold and silver explorer, Navaho Gold on the ASX and is expected to float other subsidiaries Barlyne Mining and Anduramba Molybdenum in coming years.

D'Aguilar has rallied from 4¢ in July to 10¢ amid gains in Solomon Gold and Mt Isa Metals.

Shares in the \$34 million

company are down on peak prices near 40¢ in 2007.

That could change if AusNiCo and other D'Aguilar investments rally. AusNiCo has been a harder sell due to a different business model and weaker market conditions when the float launched. But the offer should close oversubscribed.

It is unusual on several fronts. Ore-grade nickel sulphide deposits are rare, and Queensland is not known for nickel. Most nickel laterite mines are in WA.

AusNiCo fully owns 12 tenements over 700 sq km in southeast Queensland, its main projects west of Gympie. The prospectus says in 2008 it discovered only the second ore-grade nickel sulphide deposit in eastern Australia – the first since 1955 – at its Pembroke project.

AusNiCo says the last such discovery was by Allegiance Mining in its Avebury project in western Tasmania in 1998.

Avebury, now owned by Minerals and Metals Group, a China Minmetals subsidiary, was mothballed in December 2008, as the global financial crisis crunched its then owner, OZ Minerals. There is talk that the mine could re-open because of higher nickel prices.

A similar nickel sulphide deposit has been profitably mined at the Aguablanca nickel-copper mine near Seville in Spain's south.

Aguablanca's owner, Canadian-listed Lundin Mining, has a 2010 production target of 7500 tonnes of nickel concentrate and 6500 tonnes of copper concentrate for the mine. Average nickel grades per tonne from Aguablanca have been 0.6 per cent so far in 2010, with 7 per cent grades in concentrate form.

Understanding Aguablanca's

Float facts

Company:	AusNiCo
Operations:	Nickel exploration, Queensland
Target subscription:	\$4m
Issue price:	20¢
Market cap at listing:	\$22m
Underwriter and lead manager:	Bizzell Capital Partners
Expected listing date:	October 21
Website:	www.ausnico.com.au



SOURCE: ASX

economics sheds some light on the commercial potential of nickel sulphide deposits, although investors should take care with comparisons between it, in production, and AusNiCo, yet to define a JORC resource.

More useful are comparisons

AusNiCo is highly speculative. It has a new business model and is an early-stage explorer.

between AusNiCo's potential business model and those of typical high-grade underground WA nickel deposits.

AusNiCo wants a large, low-grade nickel deposit suitable for open-pit mining.

It believes "bulk-scale" deposits have potential for 5 million to 20 million tonnes, grading between

0.6 per cent and 2 per cent nickel.

It says typical underground WA nickel deposits have 500,000 to 5 million tonnes, grading above 2 per cent.

AusNiCo says open-pit mining will substantially lower its operating costs and that there is potential for much higher nickel grades in concentrate form.

A higher nickel price gives this type of high tonnage, lower-grade operation a better chance at making money.

AusNiCo, a long way from producing anything, will start drilling in October. The goal is a JORC resource and feasibility study within two years.

AusNiCo has a reasonable amount of historic drilling to work with and key permits are in place. Capital costs would be as high as \$150 million, should project economics stack up.

AusNiCo is raising \$4 million

by issuing 20 million 20¢ shares. Another 90.1 million shares were issued before the float, for a \$22 million market capitalisation at the full subscription.

D'Aguilar retains 53 per cent of AusNiCo post offering and another 15 per cent of AusNiCo shares have been reserved as a priority offer for D'Aguilar shareholders.

Each investor in the underwritten float receives an option, struck at 20¢, for every share. Another 22 million options, struck at 30¢ and expiring in November 2013, were issued before the float, and 3.1 million options, exercisable at 20¢, will be issued to management.

The conversion of 45.1 million options into ordinary shares over the next three years, half of which have a share-price target equivalent to the issue price, could dilute shareholders.

The Australian Financial Review understands most shares issued before the IPO are escrowed for two years, meaning few cheap shares raised during seed funding can be sold on market after listing.

AusNiCo is highly speculative. It is targeting a form of nickel mineralisation with little commercial history, has a new business model, and is an early-stage explorer resource.

Its valuation is arguably higher than most explorers at a similar stage that have listed this year, although AusNiCo would argue it is chasing a much bigger prize than most.

The glow from recent share-price gains in other D'Aguilar spin-offs, a board that includes D'Aguilar managing director Nick Mather, best known for co-founding Arrow Energy, and the potential of nickel deposits should attract speculators if commodity prices keep rising.