

If any metal can recover, tin can

“WE think tin will be one of the first metals to recover once markets stabilise,” says Sydney-based Resource Capital Research.

Great. The problem is that tiny matter -- markets stabilising. There is some pretty dreadful news about. The 15-nation Eurozone watched its economy contract 1.5 per cent in the December quarter. Last week Morgan Stanley's Asian chief, Stephen Roach, told Asian central bankers they were in trouble with China at a standstill, Japan getting “clobbered” (his word) and problems for Asia's exporters. As Bloomberg reported, Singapore's state-owned investment arm Temasek Holdings lost the equivalent of Sri Lanka's entire GDP in the eight months to November 30.

But Resource Capital Research does have a point. Unlike most of the other base metals, there is no growing tin surplus. Inventories held at the London Metal Exchange now sit at 8820 tonnes, against a 52-week high of 11,430 tonnes. The RCR case is that a rebound in Chinese demand, coupled with the closing of mines in Indonesia, could trigger supply shortages.

The various Australian stock exchanges have been home to many tin companies over the years -- a lot seem to have gone out of existence in the 1930s and 1950s and there are not many people who would remember companies such as Tin & Gold Mines and Tin Bentong. But now the tin component of the ASX could be getting some critical mass, there being 15 companies that have a substantial tin interest. The biggest player is **Metals X (MLX)** with its Renison mine. **Gippsland (GIP)** has advanced to a bankable feasibility study at its Egyptian tantalum-tin project. **North Queensland Metals (NQM)** has gold revenue to finance its tin projects, while those classed as in the advanced exploration stage by RCR are **Consolidated Tin Mines (CSD)**, **Kasbah Resources (KAS)** (with a potentially world-class deposit in Morocco), **Venture Minerals (VMS)** (with Australia's third largest resource in Tasmania) and China-controlled **YTC Resources (YTC)**. The last mentioned company has just added further ground near Glen Innes in NSW. **Outback Metals (OUM)** is looking for production next year at Mt Wells in the Northern Territory.

During the past 12 months, the listed companies with tin projects have regained considerably from their share price lows, one of the best performers being **Stonehenge Metals (SHE)**, along with **Macquarie Harbour Mining (MHM)** and **Malachite Resources (MAR)**. For the record, the other tin plays are **Minemakers (MAK)**, **Wolf Minerals (WLF)** and **Auzex Resources (AZK)**.

Rio a taste of the future

THE week's news was dominated by Rio Tinto (RIO) and its bone-headed decision to hand over substantial influence to Chinese government interests. This writer, as disclosed below, owns shares in Rio and is still puzzling why the people who got the company into this terrible mess are expected to be able to get it out of that mess.

But, beneath the radar of most, the fire sale of Australian assets goes on. Dynasty Metals (DMA) is handing 33.3 per cent of itself to a hitherto obscure Chinese company, Henan Rebecca Holding, for \$5 million, while the majority holding in the Lake Giles project in Western Australia's Yilgarn is being sold to China's government-controlled Minmetals Mining Corp by its Toronto-listed owner. Lake Giles has an inferred resource of 197 million tonnes of iron ore, but only a fraction of the 1155sqkm has so far been drilled.

China now has the Australian mining industry by the you-know-whats. We screwed them in pricing terms in the good times, they will return the compliment in the lean years -- but not just by grinding down the prices, but by winning control of what lies under Australian soil.

A penny for the dreadfuls?

DAVID Barwick has been involved in 28 IPOs in the resources sector, here and in Canada, and is now chairman of Metallica Minerals (MLM). He is pretty passionate about the parlous state of the exploration business, believing the large companies will be doing next to nothing to protect their cash and as many as 15 per cent of the juniors could be about to go to the wall.

It's too late now because the stimulus package has passed the Senate, but Barwick says that our mining and energy sector could have been given a bailout had the Rudd Government been prepared to spend \$300 million on it -- the same amount that was given to local government in November.

This is his argument. Bring in the flow-through shares scheme, where explorers with no revenue pass on their tax losses to shareholders, and you could get as much as \$1 billion worth of exploration under way without it costing the Government more than its handout to mayors. That calculation is done on the 30 per cent company tax -- if the explorers spend \$1 billion, it costs Canberra the \$300 million in company tax losses.

That exploration spending would ripple through regional Australia, Barwick argues, as well as adding an incentive to investors to stay on board. Moreover, unlike much of the so-called stimulus package, resulting discoveries would add to Australia's net wealth. There are precedents for the commonwealth to help the resources people in tough times. Allow us to alert Kevin Rudd to legislation passed by the federal parliament the last time things looked as bleak as they do now. There was the Precious Metals Prospecting Act 1926, which allocated pound stg. 40,000 to help gold exploration; the Gold Bounty Act 1930, which allowed for payment to producers of pound stg. 1 for every ounce produced above the average output of the preceding three years; and the Petroleum Prospecting Acts of 1926, 1927 and 1928, which pumped money into exploration here as well as in the territories of Papua and New Guinea.

This time: not a cent of the \$42billion.

Tailenders

* NOT many who are leaving -- or being forced out of -- their jobs at present will get more than their statutory requirements. Fortunately, Lan Nguyen will not have to cut back on those little extras in life. The MD of Mosaic Oil (MOS) has decided to step down from his \$405,000-a-year job. Over his 15 years working his way up at Mosaic, he has earned a “special allowance” based on after-tax results which now amounts to \$2,266,254.53. But here's the most delicious part of the announcement: “This special allowance will continue notwithstanding Mr Nguyen's resignation.” The total owing will be paid out at the rate of between \$200,000 and \$700,000 a year. Meanwhile shareholders (also known as “the owners”) still await signs of dividends being available.

* SPDR Gold Trust, the second biggest exchange-traded fund in the US, said it had added another 100 tonnes of gold to its holdings. Where did it get all that gold considering that there is a shortage of the physical metal for investment products? Call us old-fashioned, but we prefer the “gold bar under the bed” type of investing. And owning companies that pull it out of the ground. We note that Adamus Resources (ADU), which already has a resource of 2million ounces in Ghana, has just picked up more ground. This company, capped at \$40 million, seems undervalued by comparison with its Ghana neighbour, Perseus Mining (PRU), which is capped at \$134 million.

* KAOLIN has got something of a reputation here with some projects not performing to expectations, but the people at Minotaur Resources (MEP) are pretty confident about their deposit on Eyre Peninsula in South Australia. The resource has just been doubled and the pilot plant is ready to crank into action. The key to MEP's Carey's Well deposit is that, unlike most kaolin found, it is a high-grade one. It is also close to an existing port at Thevenard.

Robin Bromby | February 16, 2009