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Woe replaces euphoria at speculative end of sector as resource prices tumble

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GARIMPEIRO

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THE speculative end of the resource sector is being beaten up something shocking. Tales of woe abound, with just a sample of announcements on Friday telling you that the euphoria of the past five years has been replaced by the harsh new reality of crumbling commodity prices and the start of a prolonged drought in equity funding.

Independence Group has pulled out of the Ravensthorpe nickel joint venture, leaving Traka to find a new big brother, while Advance Energy has deferred a planned options and placement issue.

Vital has reduced the pace of work at its Watershed tungsten project in Queensland and Terramin has to cope with the news that OZ Minerals wants out of their Menninnie lead/zinc project after spending $8 million.

And poor old CityView. The backer of its oil exploration offshore Angola cannot proceed, prompting CityView to refocus its mineral exploration portfolio, as you would when there is nothing else to do.

For all that, Garimpeiro is from the Buffett school of optimism in that it should be a cause for celebration that all the specs are a lot cheaper than they were. Then again, being cheap doesn't mean much if the specs are forced to close their doors.

That's why forthcoming (September) quarter cash-flow reports from the specs will be required reading for anyone with exposure to the sector. Remember it takes a minimum of $500,000 a year just to keep the doors open for an ASX-listed junior. With easy equity funding no longer an option, the cash-strapped juniors face some tough decisions. Stock selection is more important than ever.

Heemskirk

NONE of the above affects Melbourne-based Heemskirk. It is a profitable and dividend-paying old-style mining house. Its shares have nevertheless fallen from $1.50 a share in mid-June to the 95 seen on Friday.

The crunch is despite the particular appeal of the defensive properties of the mining-house structure in these uncertain times. Heemskirk produces gold, tungsten and industrial minerals, with the latter plugged into Canada's booming oil and gas sector.

It has just ruled off its books for the September financial year. Don't expect much earnings for the period. But it is a different case for the year under way thanks to the recent start of the Los Santos tungsten mine in Spain, a full year of earnings from the Pajingo goldmine in Queensland, and expectations of stronger sales by the industrial minerals division.

Piers Reynolds, at Vertias Securities, looked at Heemskirk in mid-September and forecast a net profit for the 2008 year of $3.4 million, rising strongly in the year under way to $13.2 million. Not bad given that Heemskirk was being valued by the market at $72 million (5.4 times forecast 2009 profit) on Friday.

Reynolds has a "buy" on the stock, which he values at $1.56 a share. Assuming everything at Los Santos goes to plan, the near-term game changer for Heemskirk could be Pajingo.

Heemskirk has got 40% of the show, which in the June quarter produced 9791 ounces of gold at a cash cost of $A733 an ounce. Look for an improvement in grade in the September quarter to have sweetened things up.

But the real cream with Pajingo will come when the joint venture adds to its current five-year mine life by coming up with some near mine discoveries in a region known for high-grade pods in the 50,000-250,000 ounce range.

A find of 100,000 ounces alone would add $40-50 million in free cash-flow potential to the joint venture.

Los Santos' status as the only non-Chinese tungsten mine of note to have made it to the starting stalls in recent times - and the foreseeable future - means its strategic appeal should not be underestimated either.

Crusader Resources

SAMPLING interesting-looking rocks in road cuttings has long been a cheap-as-chips exploration method for geologists content to take their time getting to their destination. Melbourne-trained geologist Rob Smakman likes to pull over and take a look more than most.

It's been worthwhile too, with one of the roadside stops by the Brazil-based **Crusader** Resources boss leading to the discovery of the Posse iron ore project in Brazil's famed "Iron Quadrilateral" in Minas Gerais state.

It's not the biggest discovery around but the location means that **Crusader** will find a ready market for its production. And given the iron ore price, it doesn't have to be all that big to have an impact on **Crusader** with its $22 million market capitalisation (49 a share on Friday, up 14 on the day).

As Smakman's Brazilian base tells you, **Crusader** is focused on the booming country that put the "B" into BRICs - the term that the resources industry uses to cover the economies (Brazil, Russia, India and China) that underpinned the now flagging five-year surge in global demand for commodities.

But it was a roadside stop last year in Western Australia's Yilgarn region that is this week's interest in the stock. Carnotite uranium mineralisation was identified in a cutting in **Crusader**'s Lake Throssell project.

The find was not surprising, given that the property covers the "upstream" and "downstream" palaeochannel environment that hosts the Thatcher Soak uranium deposit.

Thatcher Soak is partly owned by Elecktra Mines and Uranex. Elecktra recently announced a maiden resource of 6.2 million pounds of uranium while Uranex estimated

14 million pounds on its ground.

All that is more interesting now that uranium mining is possible in WA, with the Labor Party no longer in charge. **Crusader** is now working on a land access agreement with native title owners so exploration can begin on its ground. In the meantime, it should enjoy an afterglow effect from further success by Elecktra and Uranex on their ground.