Juniors pay nickel and take fortune

A few old West Australian nickel sites that WMC didn’t want are proving lucrative for mid-tier miners such as Mincor Resources, writes Paul Garvey.

Xstrata’s $3 billion takeover of West Australian nickel producer Jubilee Mines has brought into stark relief the attractiveness of Australia’s mid-tier nickel stocks.

While Jubilee’s super-high nickel grades and exploration upside made the company the standout pure nickel stock, its imminent disappearance has observers wondering which of the mid-tier nickel plays will be next to go.

Mincor Resources was one of the first juniors to acquire a share in the WMC Resources nickel mines around Kambalda in the WA goldfields, along with Independence Group and Sally Malay Mining.

Like both those companies, Mincor has turned around the older assets, thanks to the strong appreciation in the nickel price and good exploration results.

Pert-based analyst Peter Strachan of StockAnalysis says Mincor’s strength has been its exploration performance.

“They’ve been extremely successful in managing to expand their reserves every year,” he says. “They started out with about 39 years of resources and reserves, and now they have something like 10.”

Thanks in part to an aggressive acquisition strategy, Mincor operates more nickel mines near Kambalda than any other miner.

Earlier this week, the company gave the green light for the $23 million development of its seventh operation, the 3000-tonne per annum McMahon mine.

While McMahon is, like most of Mincor’s mines portfolio, comparatively small, it will help lift the company’s total group output to 20,000 tonnes per annum by financial 2009.

McMahon will be the third mine to emerge from Mincor’s $68.5 million acquisition of private group GMM, which was completed earlier this year. That acquisition brought into Mincor the operating Otter Juan and Coronet mines.

Otter Juan has aided Mincor’s operational performance, helping the company record quarterly output of 4359 tonnes nickel in concentrates for the September period.

Most importantly, says Argonaut Securities analyst Troy Irwin, the comparatively higher grade material of Otter Juan helped Mincor reduce its group cash costs for the quarter by 15 per cent.

In an industry being plagued by rising labour and equipment costs, the fall was no mean feat.

Mincor has typically been marred by a reputation as a higher-cost producer than its peers, largely because it draws from many mines. While Irwin rates Mincor highly, he says it falls down against Sally Malay on costs.

“It’s more a case that they have to draw their ore from multiple sources,” Irwin says. “While that does improve flexibility, the added transport costs and so on means their costs are typically higher.”

For Hartleys analyst Andrew Muir, the variety of mines in the Mincor portfolio is a strength — spreading operating risk and providing production stability.

“If one mine has a poor performance, it’s not going to affect their overall quarterly production as much as it would if they were a single-mine producer,” Muir says. The exploration success of Mincor and fellow Kambalda region miner Independence has Muir questioning whether the mines’ reputations as aged, limited-life propositions is deserved.

“History has shown us, when you get on to one of these nickel sulphide systems around Kambalda, your exploration team has a very, very good success rate,” he says. “All miners have been very successful in finding more ore. These systems tend to be rather large.”

During the September quarter, drilling at Mincor’s N99 discovery near its existing Mariners mine returned nickel grades as high as 7.2 per cent — as rich as anything the company has seen.

Beyond exploration, Mincor has also proven to be the most acquisitive of the Kambalda miners. Along with buying the GMM assets, Mincor has established a joint venture with View Resources over the Carnilya Hill project.

Mincor will hold 70 per cent in the mine when it comes back into production early next year.

More recently, Mincor has taken steps to diversify beyond nickel.

During the September quarter Mincor had promising exploration results from its early stage Tottenham copper prospect in NSW.

The company has also picked up promising ground in Ireland for zinc-lead.

Xstrata, Anglo American and Teck Cominco have all flocked to Ireland in recent years, with the nation now becoming Europe’s largest zinc producer.