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HD **Enter the fracking sandman**

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A locally listed player wants to fill the void in North America

Heemskirk Consolidated(HSK) UNLIKE the bans and constraints on the practice found in Australia, the North Americans are fracking like there is no tomorrow.

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And for each oil and gas well subject to the practice of hydraulic fracturing, as it is properly known, fine particles or proppants are needed to be pumped in to the shale beds.

The proppants hold open the newly developed fractures, allowing the tightly held oil and gas to be liberated.

The number of so-called unconventional wells — in the sense that conventional wells tap free flowing reservoirs — is growing year by year, increasing the need for proppants.

And the recent push to expose more of the source rock through horizontal drilling, which employs multiple fracks, has again increased the need. Back in 2009, horizontal wells would have a little more than 200 tonnes of proppant pumped in to them. Now it is more like 1200 tonnes.

Sand is by the far the dominant proppant used and, unlike a lot of other stuff pumped down the wells under super high pressure, it stays put, adding to the pressure for new supplies to come on stream.

It is that backdrop that has prompted the ASX-listed Heemskirk Consolidated to set out to become a frac or frack sand supplier to the unconventional oil and gas industry in the vast Western Canadian Sedimentary Basin from its Moberly operation, near Golden in British Columbia.

Moberly has been a sand producer from a silica deposit on the flank of Mount Moberly since the 1980s, but its super-white product has gone off to glass makers, golf courses and more recently, silica flour (fillers and plastics). Now that Heemskirk has got the bigger potential of Moberly as a long-life frac sand producer in its sights, market interest in the stock back here in its home market has picked up considerably.

The stock opened the year at 6c and last traded at 17c, having got to as high as 24.5c recently in response to the August notification that there had been an incomplete and non-binding joint venture proposal on Morberly, one that might or might not eventuate.

In the meantime, Heemskirk has started site works on the frac sand project, initially as a 300,000 tonne-a-year producer supplying to the estimated 3 million tonne-a-year Canadian market for the stuff which, depending on the quality, sells for $C180-$C220 a tonne, including freight.

Capital cost has been put at $C26 million ($26.3m), which is not a big ask to finance given the project has an internal rate of return of some 30 per cent and a three-year payback. And besides, Heemskirk is holding cash and liquids of $12.9m, and an investment in a Canadian tungsten stock worth some $4.4m.

Net present value of the project has been put at $C66m, which is kind of interesting given Heemskirk's $26.6m market capitalisation, or its $13.6 enterprise value.

Gold on the up RBC Capital Markets' global head of mining research, the Toronto-based Stephen Walker, had some words of comfort for the beaten-up gold sector on his visit here last week. On the basis that the North Americans seem better than most at picking the moves and trends in the yellow-metal, his comments are worth passing on.

Following gold's plunge from as much as $US1900 an ounce in the April and May correction of last year, Walker reckons that it has since found a floor price at $US1200 an ounce.

And there are two "sustainable trends'' behind that, according to the long-time market watcher.

"The first one is central bank buying. We've seen four years of central bank buying on the heels of 18 years of central bank selling," he says. "A number of emerging market central banks have been consistently adding gold to their foreign exchange holdings.

"The second trend has been China. China has liberalised its market significantly over the last eight or nine years. Prior to 2005, you really couldn't own gold — other than jewellery — in mainland China as it was effectively illegal. Imports from Hong Kong basically created a liquidity event in 2011 and the volume of physical investment (jewellery, bars, wafers and coins) has increased tremendously. China last year consumed about 34 per cent of the world's gold.

"So there is something happening there which I think is a sustainable trend, with the wealth that was created over the last 10-15 years being put back in hard assets.

"All that leads to the prediction that gold has established a floor price of around $US1200 an ounce (it's currently $US1235 after rallying from a low of $US1190 at the start of the month).

"We think we are at a floor now and we're going to build up from here. It is not going to be $US100-$US200 an ounce moves every year — more like $US50-$US75 increments each year.

"But again, in the long term, that is going to be positive for the gold mining industry — and investors." Just as encouraging from Walker was his feedback that from his meetings and soundings of investors, the dominant tactic at present of merely standing on the sidelines could be passing.

Walker reckons they are doing the work for a return. "They realise that in a cyclical market opportunities present themselves that may take six to 12 months to unfold," he says.

"What we are seeing is senior portfolio managers who have seen it before, recognising that the selling may represent a buying opportunity at some point.

"In North America and Europe, investors that we talk to are doing the work — looking at the valuations, the balance sheet, the projects — and at reasonable commodity price assumptions, in some cases are putting money to work.''Mind you, the switch from a tentative return to en masse return of investors could depend on there first being a few days of capitulation selling where still lower equity values and heavy volumes allow those plotting a return to build positions quickly, and at an attractive price. Some more short-term pain for long-term gain is the idea.

CO heemcl : Heemskirk Consolidated Limited

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