

SE Business
HD **Backing the right horse in small miners race**
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THE **mining** boom is over, isn't it? Last month's sharp fall in the **iron-ore** price has sent shock waves through the **mining** sector, spurring hundreds of job losses in WA.

Small **iron-ore** miners, which have high production costs and operate on low profit margins, are being edged closer to the **iron** wall.

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On Wednesday, the Kimberley Metals Group, which runs the 67 **million**-tonne Ridges **iron ore** mine near Kununurra, said it would be laying off 40 workers.

But if you're worried the **mining** boom is coming to an end, think again. Many small miners, widely regarded as "penny dreadfuls", have been outperforming the broader market and some have delivered big returns to stock speculators over one or two days. These stocks have done little off their own bat, other than being involved in the right metal at the right time.

They are benefiting from the improving market for base metals – a group of commodities with widespread uses in industrial processes, such as making stainless steel (nickel), electronics and construction (**copper**) and steel hardening (tungsten).

Tin is another industrial metal sharing in what appears to be a widespread recovery driven by an end to fears that **China's** growth will slow significantly, the US recovery will stall, and unsavoury business deals done in **China's** commodity trading sector will corrupt the entire metal industry.

But fossicking for returns among small **mining** stocks is not for the faint-hearted. Stocks that can rise 30 per cent or more in one day can, just as easily, be down by the same or more the next day. Like **mining** itself, it's a very dangerous game.

Mirabela Nickel, suspended last October when the nickel price was much lower, soared from a low of 1.6c to a high of 44c on July 4. On Wednesday, it was trading back at 17c.

But rising metal prices are just one factor in the new-found optimism for small miners.

Eureka Report's **mining** commentator Tim Treadgold points to an expectation of widespread merger and **acquisition** activity that often occurs at this stage of the minerals cycle, plus takeovers.

"**Chinese** investors have been first to play the takeover card, snapping up the **iron ore** project developer Aquila Resources and the moribund **gold** explorer, Bullabulling, in deals which management of both target companies described as opportunistic and undervalued – but which investors thought represented good value, which is why they took the cash," says Treadgold. "Entry into the micro end of the **mining** market, where some stocks are valued at less than \$1 **million** and about 600 are valued at less than \$5 **million**, is not investing. It is outright speculation." He says buying small exploration stocks can be like betting on horses. The trick is to find undervalued stocks with the potential for exceptional returns by being in the right base metal at the right time. Good luck.

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