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HD Miner times entry right as zinc's on rise

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Mungana is acquiring the **gold** and zinc assets of Kagara

Mungana Goldmines (MUX) ASK the experts to tip which metal is likely to be the best performer in the next couple of years and they will divide into two camps — one for nickel, the other for zinc.

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Understanding just where nickel will go requires an in-depth knowledge of Indonesian politics, given it is that nation's surprising resolve to make its ban on the export of unprocessed ores stick that has changed the dynamics for the stainless steel ingredient.

Zinc, on the other hand, is a more straightforward story, one where consumption recently overtook supply, all at a time when some of the world's biggest zinc mines have either closed or are about to close.

Given the galvanising metal (other uses include die-casting, alloys/brass and chemicals) has not had a so-called incentive price that would have encouraged more exploration/developments for more years than the industry cares to remember, the supply crunch comes as no surprise. And it is now being reflected in zinc prices. The metal was last quoted at US99c a pound. The increase from the start of the calendar year price of US94c a pound is not all that impressive. But take a look at the US15c, or 18 per cent, rise since late November last year and it can be seen why there is a bit of a buzz surrounding the metal.

More to the point is that, in very general terms, a good zinc mine can produce its metal for US60c a pound, and lower still if there are byproduct values for silver, **lead** and sometimes **gold**. And it seems that the supply crunch is not about to go away in a hurry. Consensus among the better forecasters is that zinc demand will grow at an annual rate of more than 5 per cent for the next five years.

Continued growth in **Chinese** steel production is central to that expectation. But just as important is the expected increased uptake there of value-added steels. It seems that the **Chinese** are no different to the rest of us in that they can see the value in protecting their infrastructure investment in steel with a protective cost of the galvanising material.

That 5 per cent annual growth in zinc demand means that from about 13 **million** tonnes of the stuff in 2013, the world will want roughly 16-17 **million** tonnes come 2018. The question is, where is it going to come from?

One of the biggest hits to supply comes in the middle of next year, when **mining** at MMG's 500,000 tonne-a-year Century mine in north Queensland comes to an end. MMG's earlier plan to have its Dugald River project come on line to (partly) replace the loss of Century is now up in the air while it revisits the best **mining** method.

Other big-name closures overseas have already occurred which is why zinc has gone in to supply deficit in the opening months of 2014, with the situation to get worse in coming years.

Now it has to be said that there has been more false dawns for a resurgence in zinc prices than you can poke a stick at. **China**, which accounts for about 35 per cent of annual production, has an ability to ramp up production when prices are good. But much of that ability rests with Ma & Pa scale **operations**. There are thousands of small **operations** that shut up shop when the price is weak, only to pop open again when prices are edging higher as they are now.

One such operation is run by a little old lady. She has a one-star hotel next to her zinc pit. When the zinc price is poor, she runs the hotel. When prices are strong, the hotel is shut and all attention goes to the mine.

But this time around, the restart of the opportunistic small **operations** is not guaranteed because of a real resolve by Beijing to do something about the country's massive pollution problems. It has been happening in other metals, and there is no reason to think it won't happen in zinc.

Having said that, there is not much in the way of zinc exposure to be had in this market. Much of the metal produced here is done so by the likes of MMG, Glencore Xstrata and BHP Billiton. If it is zinc exposure that is sought, greater leverage to the metal than those big boys offer can be found elsewhere. There is a new entrant among the leveraged players too — Mungana Goldmines. It is in the process of wrapping up a $15 **million** deal to acquire a package of zinc and **gold** assets from the liquidator of its major shareholder, Kagara.

The 2012 collapse of Kagara — zinc prices headed south with the rest of the pack at the time, and the **company** was suffering from delusions of grandeur — has rightly caused a lot of bad blood. But for Mungana at least, some of its underpinning assets offer up a shot at a bigger and brighter future.

The best of the assets being picked up by Mungana is the King Vol zinc deposit, which comes with an indicated resource estimate of 900,000 tonnes grading an impressive 16 per cent zinc, along with **copper**, **lead** and silver values, and an inferred resource of 1.9 **million** tonnes grading 9.9 per cent zinc, with other metals.

It sits close to a partially completed base metals concentrator which Kagara was working before it imploded, and there is good reason to more drilling will add to the resource base as well as bring in some regional resource opportunities. Kagara's **stake** in Mungana will increase from 59 per cent to 76 per cent under the $15m deal which is to be settled by the issue of two secured convertible notes.

That in itself presents future share register challenges, both for Mungana and Kagara's liquidator. But nothing that a resurgent zinc price won't smooth over.

Celamin Holdings NL (CNL) THE need-to-feed-the-world imperative has not gone away. On UN numbers, there is going to be another one **billion** fellow earthlings looking to be fed by 2025, and another one **billion** arriving by 2050, taking the world's population to close to 10 **billion**.

Increased use of fertilisers (nitrogen, phosphate and potash) is going to be big part of solving the food challenge that comes with that near 40 per cent population growth. Today's interest is phosphate, and the plans of ASX-listed Celamin to become a producer in Tunisia, birthplace of the Arab Spring in 2010, and the country most on track to emerge from it all sporting democratic reforms.

Celamin was trading at 4c yesterday for a market capitalisation of $9.5m. Its core asset is the 51 per cent Chaketma phosphate project, 200km southwest of the capital Tunis. It is a large-scale and quality resource.

And the presence of a nearby open-access railway to get the stuff to an existing open-access port means Chaketma qualifies as an advanced development opportunity.It is all about to be subjected to a definitive feasibility study. Phosphate rock prices have not been great at $US112 a tonne, but the long-run expectation is for prices of $US140-$US160 a tonne. Earlier work on Chaketma suggests the potential for cash costs of production at $US55. Confirmation of that sort of potential in the BFS would force a rerating of the stock.

CO mgglmn : Mungana Goldmines Ltd | kagzin : Kagara Ltd

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