

# FINANCIAL REVIEW

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**BY** Pierpont  
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Delisting seems counter-intuitive, given Tshipi's apparent prospects, writes Pierpont.

This month's column is for the benefit of all former BHP shareholders who are pining for the return of Brian Gilbertson. You remember Brian. He sold to BHP at great cost all those lovely assets of Billiton's which are now only mentioned in the fine print of the BHP annual report, if at all.

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The bad news is that Brian won't be returning to BHP to resume his role as chief executive. Don (Don't Argue) Argus saw to that.

The good news is that Brian is alive and well as chairman of Jupiter Mines (ASX code JMS). But if you want to get aboard you'd better be quick, because he's about to delist the **company**.

Back in 2009, Jupiter was a modest West Australian junior with **iron ore** prospects at Mt Mason and Mt Ida in the Central Yilgarn, nickel prospects around Widgiemooltha and \$6 **million** in the bank.

The **iron ore** was challenging, being too far from the port of Esperance, but the nickel was promising and Jupiter had enough cash to survive for a bit.

Then along came Brian and took Jupiter into the big time. His **company** Pallinghurst Resources vended 49.9 per cent of the Tshipi manganese project into Jupiter in return for zillions of shares.

Brian also brought along another couple of big-time investors who bought zillions more shares. Steel feed corporation transformation

Geoff Wedlock – who had been fired by BHP as the scapegoat for the hot briquetted **iron** project at Port Hedland – came aboard as chairman. Sadly, Geoff died in a plane crash in June 2010. Three days later Brian joined the Jupiter board and became chairman.

Jupiter had been transformed. It was now focused as a "steel feed corporation", based on its **iron ore** and manganese interests. As Pierpont has noted, the **iron ore** was more than 500 kilometres north of Esperance.

The logistics always looked questionable and Jupiter has shelved plans for their further development in "the absence of a viable port solution".

So Jupiter's main asset is its 49.9 per cent of Tshipi, in the south of the Kalahari manganese field. The Kalahari is the world's largest manganese-bearing geological feature, according to the **company's** annual report. Indeed, the whole Kalahari field is estimated to contain 80 per cent of the world's economically extractable manganese.

Whenever Pierpont is too befuddled by alcohol to remember why a particular mineral is valuable, his stock line is to say "it's used for hardening steel". Nine times out of 10 this strategy works, because just about everything is used for hardening steel and manganese is no exception.

Manganese alloys account for 11.7 kilograms in your average tonne of steel.

Tshipi is almost in Botswana, about 800 kilometres north of Port Elizabeth. By South African standards that's a remote area. The nearest town is named Hotazel, so don't say you weren't warned against going there. The inferred and indicated resource at Tshipi is 163 **million** tonnes of 37 per cent manganese. Normally Pierpont finds there is room for scepticism about resource estimates, particularly those at the inferred end of the spectrum. Could be more **ore** than estimates

But the geologists say the Tshipi **ore** is identical to that in the Mamatwan deposit right next door, one of the world's largest manganese mines, which has been producing for nearly half a century, so Pierpont is prepared to accept the geos' estimates on Tshipi. In fact, it could well contain more **ore** than the estimate.

The 50.1 per cent of Tshipi is held by a South African black economic empowerment enterprise with the unpronounceable name of Ntsimbintle. So far the BEE enterprise has met all its financial obligations and does not appear to have presented any problems to the mine or Jupiter.

Jupiter's 2013 annual report, released in late September, showed the total capital expenditure for the Tshipi project will be about \$US200 **million**, of which Jupiter had to put up half. Jupiter appears to have paid some \$US33 **million** so far, with the balance of some \$US67 **million** committed.

Unlike almost every other mine that has attracted Pierpont's scribbles, the development of Tshipi has run smoothly.

Your correspondent always expected the mine itself to be as straightforward as Mamatwan, but he was amazed that Jupiter managed to conquer the infrastructure problems it initially faced.

Electricity is supposed to be supplied by South Africa's national power supply provider Eskom, but in Pierpont's jaundiced experience, Eskom seems to have difficulty providing power anywhere in the country, especially the Kalahari. Tshipi was going to have to rely on its own diesel generators for the first five years.

The Sedibeng Water Authority was unable to supply sufficient potable water for Tshipi until it built a 360 kilometre pipeline, which would take four years. The **ore** was supposed to be railed to Port Elizabeth by Transnet, but Transnet was unable to honour its existing contracts to Mamatwan, so Tshipi's **ore** was going to have to move by road at double the rail cost. Strength of character

These are more or less standard problems faced by mines in South Africa, but Tshipi seems to have overcome them all, perhaps thanks to Brian's strength of character. Tshipi came on stream a year ago, on budget and a few weeks ahead of schedule.

Construction of the treatment plant has to be completed and production needs to be ramped up, but things are humming.

Transnet has woken up and committed to two trains a week – and maybe three – while some **ore** is being carted in road containers. In the past year Tshipi has shipped more than 450,000 tonnes.

Tshipi plans to produce more than 2 **million** tonnes of **ore** a year and last month signed a marketing agreement for them with the Singapore-based OM Holdings (listed on the ASX with the code OMH). The marketing will be done in a joint venture **company** in which one-third each is held by OMH, Jupiter and Ntsimbintle.

OMH already owns the Bootu Creek manganese mine in the Northern Territory and is building a smelter in Sarawak, which is expected to be one of the world's lowest-cost alloy producers because of its access to cheap electricity. So 2 **million**-odd tonnes of Tshipi **ore** will be shipped to Sarawak, smelted into alloys and sold to **China**, or whoever, each year and Jupiter will have a one-third **stake** in the smelter.

Shareholders should be joyous but at least a few aren't, because they're being condemned to eternal darkness. The final crucial bit of Jupiter's transformation was in the share register. Back in 2008 before Brian started weaving his magic, Jupiter's issued capital was 169 **million** shares.

The takeover of Tshipi and subsequent **equity** issues to finance its development exploded the capital to nearly 2.3 **billion** shares, of which 86 per cent are held by Brian and six associated big investors. NO longer in best interests

On October 3, Jupiter applied to the ASX for removal from listing. "Directors of Jupiter have determined that the continued listing on the ASX is no longer in the best interests of the **company**," they said.

The reasons they gave were that: (1) the shares were depressed at prices of 7¢ and 8¢, which significantly undervalued the **company**; (2) there was no longer an active liquid market in the shares; (3) the current cash reserves of Jupiter were sufficient for the next two or three years; and (4) relatively minimal amounts were raised from shareholders in an entitlement issue a year ago, apart from the major shareholders.

Pierpont does not follow any of this reasoning. Tshipi looks to have a promising future, which the share price should adjust to in time. The share price is hardly going to improve if they are delisted and there is no market for them.

The shareholders manifestly didn't think delisting would improve their position. As soon as it was announced, the market dumped the stock from 7.5¢ to 4.1¢. As Pierpont writes, the price is 5.4¢.

With 2.28 **billion** shares on issue, and a price at 7¢, the market capitalisation of Jupiter was \$160 **million**. That's not too bad for a **company** which has given shareholders no guidance on when they might expect profits or dividends. Shareholders could just as easily accuse Brian of withholding information to keep the price depressed.

The liquidity of the shares was always going to be imperilled because Brian and his mates took so many of them. But they can hardly complain about illiquidity, because last July they mopped up another 63 **million** on market at 7¢. Shareholders should enjoy fruit of investment

The fact that a **company** has adequate cash and doesn't need to raise more is no reason for delisting. The shareholders – liberated from ongoing capital raisings – should be able to sit back and enjoy the fruits of their investment through dividends.

Jupiter has 2113 shareholders. The delisting will not greatly discommode the magnificent seven but the other 2106 will have no public market for their shares and be at the mercy of the few biggies who already hold 86 per cent.

Minority shareholders will be unable to vote on Jupiter's transactions with its directors, the issue of shares to directors or significant changes to the **company's** assets or activities.

The board will still have to disclose material information to the Australian Securities and Investments Commission. Small shareholders who want to know what Jupiter is doing will have to keep checking with ASIC. As far as information is concerned, they'll be living in a black hole.

Nevertheless – and despite at least one shareholder's protest – the ASX has rubber-stamped the delisting.

If Pierpont were in Brian's position, he would then start squeezing out the 2106 for peanuts. The shareholders can only pray Brian has a bigger conscience than Pierpont.

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86 per cent of Jupiter shares are held by Gilbertson and six others. The other 2016 look like not being able to reap the benefits of manganese success, once the **company** is delisted from the ASX

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