

Cycle showing no signs of slowing

Feature by Mark Fraser, who attended the conference

IF ANYONE NEEDED evidence that investment in mineral stocks was still growing, then they would have found it at Vertical Events' recent Mining 2007 Resources Convention held in Brisbane.

ALMOST 1,000 DELEGATES – with a good portion of them being the so-called mums and dads – attended the annual forum in what was the Mining 2000 series' biggest and best show yet.

Once again sponsored by the Queensland Government, mining consultants Snowden and Westpac Institutional Bank, the conference served up what was possibly the broadest minerals and energy investment overview in Australia, with representations being made by more than 70 junior and mid tier resources companies as well as by every state and territory administration across the country.

Stock Resource's joint managing director Stephen Bartrop helped set the pace for the three day event when he told delegates the market was currently in some kind of supercycle, where the "stronger for longer principle" was apparent.

Combined, minerals and energy now constituted the second largest sector in Australia after banking, which underlined the need for portfolio diversification amongst investors, according to Bartrop.

Bulk commodities, he noted, were looking particularly good, as was gold.

"In iron ore, thermal coal and coking coal markets, spot prices into China are trading well above the 2007 settlement prices," the analyst highlighted.

"Iron ore is the extreme example, where consensus forecasts now range from a 25 to 50% increase in 2008 over the 2007 price.

"The reason appears to be a slower than expected supply growth while steel production continues to boom."

In terms of gold, Bartrop put the bullion lprice rally since late 2005 down to the US dollar, "with the gold price strengthening as the US dollar weakens on the back of the US twin deficit problem and, now, the US housing and consumer weakness".

"In our opinion this trend is unlikely to change, and we remain bullish on the gold

price heading towards US\$1,000 an ounce."

Vital signs

While analysing individual companies across the board, Bartrop said there were two major step changes when it came to upgrading their market valuations.

First, the change from being a junior explorer to developer had seen a significant re-rating in stocks, due primarily to the lack of mineral discoveries in the current cycle "despite intense exploration efforts".

"If you are keen explorers, we recommend plenty of projects and plenty of cash, good management and being patient," Bartrop suggested.

"Secondly, there is often a significant re-rating increase as companies move from one operation to two operations or more.

"This corresponds to a de-risking of these companies as viewed by many investment funds."

As expected, the emergence of China was a driving force behind the current buoyant market.

The multiplier factor vis-à-vis the country's population growth was having a positive impact.

Referring to numbers supplied earlier this year by a bullish BHP Billiton, Bartrop pointed out that an increase of 2.5 kilograms in copper consumption per capita by 1.4 billion people would need an additional three million tonnes of the base metal.

And this would effectively require the development of another three Escondidas.

"Of course this excludes the growth in copper consumption in the rest of the world," he added.

Another chart from the erstwhile Big Australian showed that the potential demand for copper, assuming industrialisation in the world's emerging markets would continue, could propel the metal's demand rate by some 2%-3% higher per annum.



▲ The Vertical Events team behind the Mining 2007 show: (from left) Rebecca Winston, Stewart McDonald, Doug Bowie, Katie Tilley and Lynnley McDonald.

"Essentially (BHPB) is saying that the demand for copper over the next 20 years or so will exceed the demand that has occurred over the last 100 years," Bartrop accentuated.

"There is of course a similar analysis for other commodities, including aluminium, which no doubt gave Rio Tinto some comfort in its US\$38 billion bid for Alcan this year to become the world's largest aluminium company – in what was the biggest mining deal in history."



▲ Stephen Bartrop – adheres to the "stronger for longer" philosophy when it comes to the minerals and energy sector.

Other considerations

A further aspect affecting the copper sector, Bartrop said, was the fact the base metal was enjoying record low treatment charges, with the price falling from the US15.4 cents per pound negotiated in 2007 to the (early November) figure of just US9 cents/lb.

This was in contrast to zinc, where Chinese production had outstripped the country's demand rate, resulting in a rapid rise in treatment and refining charges.

"This reiterates that the better commodities are the ones China doesn't have a lot of," he remarked.

Embracing the spirit of the Mining 2007 Resources Convention, Stock Resource provided some of the transport for regional investors in Queensland so they could attend the three day event.

Bartrop indicated the firm was looking at forming another body – Lion Street Capital – as an alternative to subscribing to its research reports, as well as options relating to managing share portfolios and establishing resources funds.

"It will draw on the inhouse Stock Resource research capability and we are hoping to kick this off early in 2008," he said.