

News

May 05, 2010

Gunson Returns From Its Years In The Wilderness With A Three-Trick Offering

By Our Man in Oz

It's been a few years since David Harley had much to smile about in mining terms, and even now his smile comes through a grimace thanks to the pain of a bad back. But when Minesite's Man in Oz caught up with the chief executive of [Gunson Resources](#) last week, the unmistakable sparkle that had been missing in what can now be described as the wilderness years was back. The wilderness years started 10 years ago when Gunson discovered a rich zircon deposit called Coburn on the Australian west coast and then battled dark-green environmentalists, their friends in government, fickle financial markets, and a tricky Chinese off-take partner who let the company down badly. The end result is that Coburn remained undeveloped, which any investor taking a look at Gunson today might view as not a bad result, for one simple reason: the zircon price is rising rapidly.

That good news about zircon, a mineral in heavy demand for its irreplaceable role in making ceramics such as bathroom tiles and loo pans (is there anything more important?) has yet to filter through to the wider market. However, according to experts at the specialist minerals consultancy TZMI, and the few investment banks which track the zircon market, the price of the stuff will move up from around US\$840 a tonne today to around US\$950 next year, and then through the US\$1000 mark in 2012. Thereafter it may reach as far as US\$1200. Driving the zircon price is the most fundamental force behind all commodities: high demand and low supply. Translated, there are very few new zircon mines on anyone's drawing board, but Gunson has one of them.

“We're ready to go when the conditions are right”, Harley told Minesite. “One of the issues which causes me some concern is the exchange rate. When we completed our feasibility studies the assumed exchange rate was US75 cents. Today we're closer to US92 cents. That creates a hole in our financials, but not an insurmountable one, especially when you consider the forecast direction of the zircon price, and looming worldwide shortage.”

Investors in the ASX-listed Gunson have not yet reacted to the changing nature of the zircon market, despite an announcement two weeks ago by the world's biggest miner

of the material, Iluka Resources, that it had increased its selling prices with effect from April 1st. The action by Iluka has a direct bearing on Gunson, for two reasons. Firstly because of the price rise itself and the promise of a second price hike later this year. Secondly, because Iluka has done what BHP Billiton and Rio Tinto have done in the iron ore market, and moved away from long-term contracts and adopted a quarterly “market clearing” approach, a development which has concentrated the minds of zircon buyers who are now scrambling around looking for fresh sources of supply. That’s why Harley was able to say in his March quarter report, filed at the ASX on Friday, that “interest in the [Coburn] project increased markedly in the latest quarter, following growing evidence of a zircon supply shortage from next year, or in 2012”.

Rising zircon demand is music to Harley’s ears, though he has decided to not rush the improved outlook and bring Coburn into production too early, or with a greedy off-take partner as almost happened with a Chinese partner several years ago. Rather, his approach today is to turn Gunson into more than a one-trick pony, with copper and gold also returning from their time in the wilderness to play a role in the company’s future. Copper will be in the form of the low-cost development of near-surface ore at Gunson’s namesake Mt Gunson project in South Australia, while the gold comes the form of the first drilling in more than a decade on the company’s tenements in the Tennant Creek goldfield of the Northern Territory.

In other words, while Gunson’s share price limps along in the sub-A10 cent range, like an old miner with a bad back (sorry David, couldn’t resist), the company is morphing into a three-trick stock with copper, gold and zircon assets forming the basis of a remarkably improved outlook, for a company which many investors forgot. It is stretching the bow a little too far, perhaps, but it is possible to see Gunson moving quickly on the copper project and producing around 6,250 tonnes of copper in concentrate plus cobalt credits fairly soon.

While that is happening, drill results will be flowing from the Gosse 5 gold anomaly about 70 kilometres east of Tennant Creek, which is a gold district in the middle of a major re-awakening after years locked away by Aboriginal land claims. In the not too distant future there is the Coburn zircon project and the potential it has to attract a major partner with the capital to fund the mine. In the even more distant future there is the deep exploration work being undertaken by Xstrata at Mt Gunson, which lies deliciously close to some of Australia’s biggest copper and uranium discoveries, including BHP Billiton’s Olympic Dam and OZ Minerals’ Prominent Hill.

Money remains in short supply at Gunson, with cash in the bank standing at just A\$1.1 million on March 31, a balance which almost certainly points to the need of a top up in some form, either by stitching up a deal on the copper project, or by bringing in a partner at Coburn, or via a share issue. That poses an interesting question for investors: should extra shares be offered is now the right time to secure a low-ball entry into a company which has survived a troublesome decade and now looks poised to move ahead, at last?