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Resource stocks

Top junior miners - blue-sky mining

Mark Story - June 26, 2008

Despite falling out of bed along with equities globally following last August's sub prime melt-down, it's still a good time to be a junior minor, especially since commodities prices (notably iron ore and coal) hit record highs.

And with oil forecast to hit $200/barrel over the long-term - oilies are clearly no exception. Each $US10 rise in the oil price is expected to see Australian energy shares outperform the broader Australian share market by 15%.

Now that investors are regaining their stomach for resource plays displaying strong, albeit speculative upside potential, many juniors look primed to have some of their blue-sky re-rated. Here are some stocks worthy of closer attention.

Emerging oilies

Perth-based, Sun Resources is planning to develop a 50/50 joint venture with Carnarvon Petroleum Limited in Thailand's onshore Phitsanulok Basin. Close to Sirikit, Thailand's largest on-shore oil field, drilling is expected at Sun's massive L20/50 block during the 2H 2008.

While the block's promising well, Nong Bua-1 drilled by Shell in the 1980s didn't flow oil to the surface, the operator believes a pump could produce commercial flows. A twin to this well may be drilled as early as 4Q 2008.

The block also has analogous geology to the nearby Na Sanun East field where Carnarvon hit pay-dirt with one well flowing at 4,000bopd from a fracture volcanic reservoir.

According to Dave Wall resources analyst with Hartley's, Sun's L20/50 block represents a potentially 'company-making' opportunity. Carnarvon's success in Thailand resulted in its share price increasing from 7cps to 70cps within a year. Assuming the L20/50 block could produce 5 million recoverable barrels, Wall says this could increase the notional value of the share price to 35cps.

Then there are Sun’s onshore US assets in Texas and Louisiana, which based on Wall’s valuations, also have the potential to double the share price within 12 months.

For something potentially higher risk, First Australian Resources’ prospects in both Senegal and North America could both add significant value later this year.

One of the few listed Australian stocks to secure good acreage in Senegal on such favourable terms, FAR’s potential mean oil in-place is estimated to be over 1 billion barrels.

Based on Wall’s numbers, the risked value of the largest prospect at Senegal is 9-23cps, with un-risked upside potential of 460cps (before farm down). The upside potential of one fan system at current equity levels is estimated to be 80cps. “We believe that the earliest possibility for drilling at Senegal is Q1 2009,” says Walls.

In addition to receiving steady sales from its main producing North American asset at Lake Long, FAR also plans to drill a sidetrack at this site and two prospects at NE Waller during 3Q 2008. “News-flow related to any deals and firming up of a drilling schedule has the potential to push the price up to its 12 month highs of 18cps and beyond.”

Another junior primed for a re-rating on the back of its US-based assets is Red Fork Energy. Red recently secured a strategic infrastructure deal allowing it to fast track its 100% owned, 30,000 acre East Oklahoma Project. Wall expects success at East Oklahoma, where it plans to drill up to 40 wells this year to deliver a significant and rapid share-price re-rating.

An infrastructure deal allowing it to connect directly into an existing sales delivery line means Red can monitories its East Oklahoma project 12 months ahead of schedule, while saving over US$1 million in capital. Brazil's state oil company, Petrobras has been indentified as a potential farmout partner.

Pick and shovel

Junior explorer, Cortona Resources plans to further develop its NSW-based, Majors Creek which incorporates its Dargues Reef deposit where there are inferred resource of 390,000oz (@3.4 g/t) of gold valued at around $80/ounce.

Assuming testing deposits at numerous other targets, including Exeter Farm are similar to Dargues Reef, Paul Adams resource analyst with broker DJ Carmichaels says there’s scope to develop a stand-alone mining operation at Majors Creek.

Dragged down since a high of 54cps early November, rival broker Taylor Collison expects increases in the resource base to re-rate the share price by as much as 100% later this year.

For something less speculative, junior independent contractor, Mineral Resources is gearing up for significant growth on the back of the commodity bull market. Most of its gross revenue comes from its Crushing Services International division which prepares Australian iron ore for export.

However, much of Bell Potter Securities valuation upgrade (from $6.39 to $7.27) is due to projected volume increases within its Process Minerals International division - which produces high grade manganese ultra fines in the Pilbara.

Lump manganese prices have increased from around $US5 per manganese unit to over $US13, and the broker's analyst John O'shea expects manganese volumes to increase from 300,000 tonnes to over 350,000 annually over the long-term. "Our earnings per share estimates have been upgraded by 17% in FY08 and 18% in FY09."

Stock	ASX code	Market Cap	Price	Broker valuation
Sun Resources	SUR	$15.5M	9cps	18-23cps
First Australian Resources	FAR	$48.4M	11.5cps	21-40cps
Red Fork Energy	RFE	$49M	55cps	$1.35
Cortona Resources	CRC	$25M	22cps	30cps
Mineral Resources	MIN	$770M	$6.55	$7.27