

Heron Resources

Buy HRR around \$1.12

BHP and CVRD boost their stakes

[Fat Mining 102](#), 21 Nov, 2007
[Printer Friendly](#)

SYMBOL DEFINITIONS

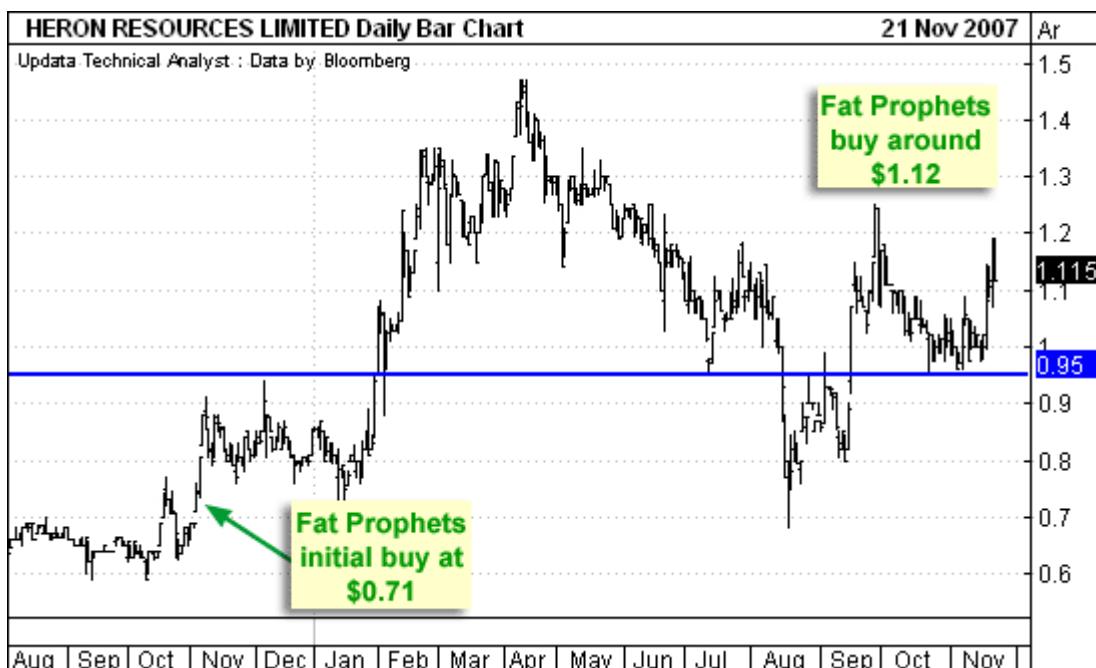
 BASE METALS	 HIGH RISK	 MARKET CAP \$264 million
--	--	--

[CLICK FOR ALL SYMBOL DEFINITIONS](#)

Heron Resources remains extremely busy on the project appraisal front in Western Australia, with work continuing on both its wholly-owned Jump-Up Dam nickel project and its Kalgoorlie Nickel Project joint venture with CVRD. What is of course unique about Heron is the dynamic tension provided by having the world's two biggest mining houses, BHP and CVRD, as major shareholders, each carefully watching the other's moves.

"We see little apparent downside for Heron with the growing interest of both BHP and CVRD in the company's activities."

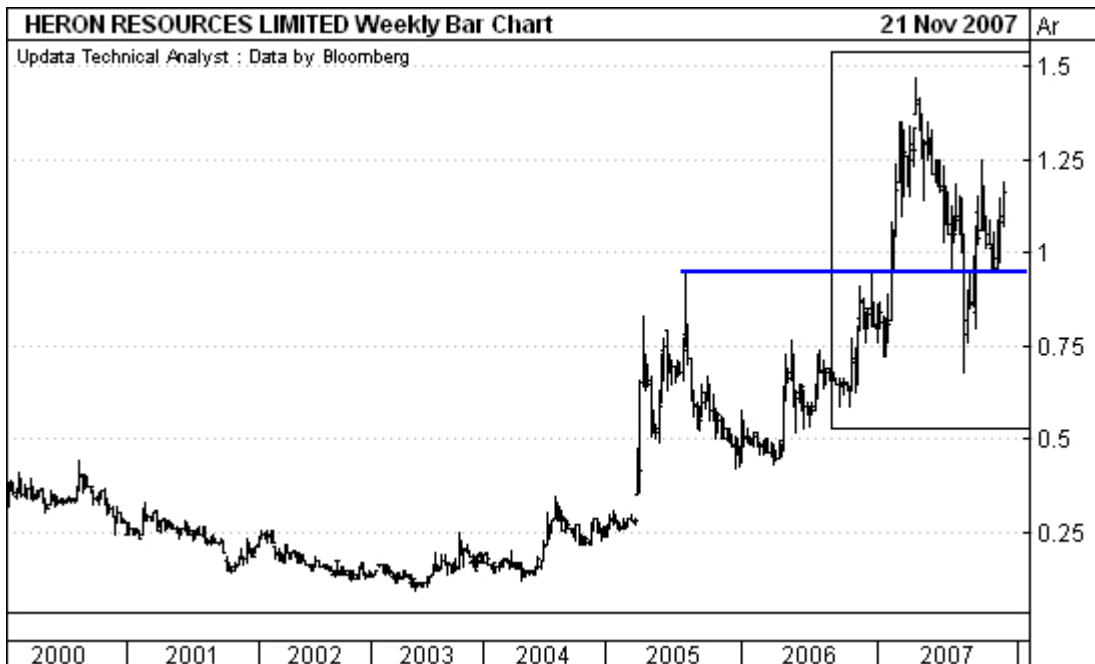
Fat Prophets initially recommended buying Heron Resources at 71 cents in November 2006 (Fat Mining 48). Our last review of this stock was in June (Fat Mining 80).



From a charting perspective, the outlook for Heron Resources remains positive. Although the longer-term upward trend remains on hold since posting an all time high of \$1.47 in April, prices have been firm in the three months since the stock touched a corrective low of 68 cents in August.

More recently, the share price has lifted away from major support at 95 cents and looks well supported to continue higher in the near term. In addition, the level of daily trading volumes has been increasing over the past month. In our opinion, this reflects growing investor support for the stock.

Taking a broader view, despite volatility along the way, it is evident from the weekly chart the share price has been trending higher for the past four years. Given the resilience of this trend, we believe Heron retains the potential to extend above \$1.47 to new highs in the coming months.



We have previously spoken about the ideal situation in which Heron Resources finds itself. It is effectively a junior company's dream-come-true, with dynamic tension of having two of the world's biggest and most important mining houses on the company's register. These players are BHP Billiton and CVRD.

Heron has interests in two extremely attractive emerging nickel projects in Western Australia, so what does it do when it wants to raise further funding? It of course approaches both BHP and CVRD and each company the opportunity to participate on identical terms.

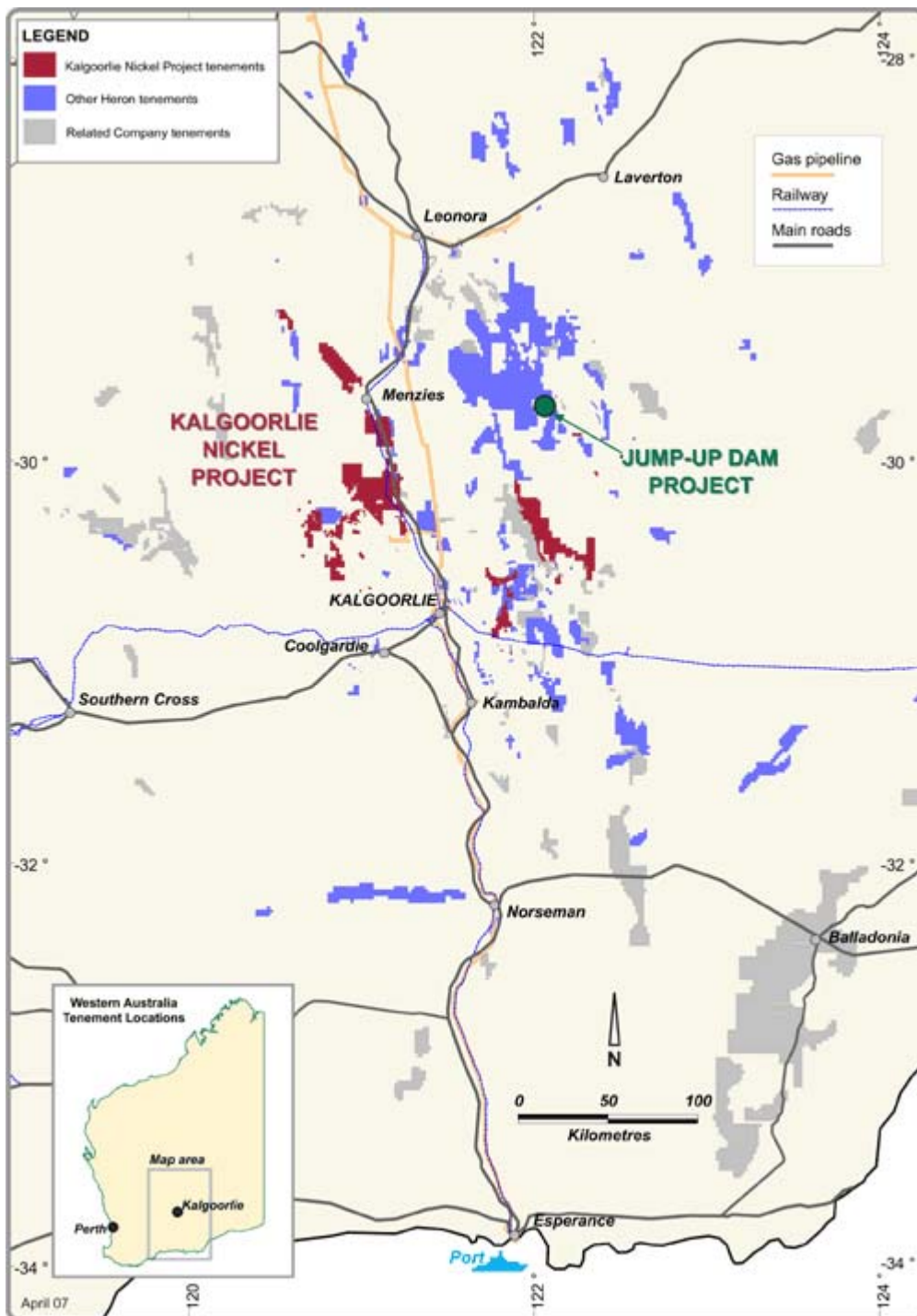
Neither company wants to concede ground to the other, so both companies seize the opportunity to boost their equity stakes in Heron! A junior company's true-life fantasy!

Heron Resources earlier this month announced two substantial capital raisings. The first involved a placement of 15 million shares at \$1.15 each to BHP to raise \$17.25 million. BHP will thus increase its stake in Heron to 16.1%.

Heron also placed a similar number shares at the same issue price to its other major shareholder, CVRD, which will in turn raise a further \$17.25 million and see CVRD's stake increased to 13.96%.

The \$34.5 million in proceeds from the two placements will be used to complete the current Trial Mining and Demonstration project on Heron's Jump-up Dam project, as well as fund the definitive feasibility study work on the project and fund further regional nickel sulphide and laterite exploration.

As a reminder to Members about the Heron story, the company has interests in two Western Australian nickel laterite projects, both of which we regard as potential company-makers.



The primary project is the Kalgoorlie Nickel Project (KNP) in joint venture with CVRD, which has enormous medium to longer-term upside. A second project however has added more short-term investment appeal, in the form of the Jump-up Dam project. Adding further to this project's appeal is the fact that Heron owns 100%.

Let us firstly concentrate on Jump-Up Dam. The project lies 150km northeast of Kalgoorlie.

Heron began exploration activity on the project during the middle of 2006 and achieved an initial JORC-compliant Inferred Resource during early 2007.

The initial resource comprised 41.4 million tonnes grading 0.82% Ni at a 0.5% cut-off grade, and included a higher-grade resource based on a 0.75% cut-off of 19.1 million tonnes grading 1.07% Ni. This forms a higher-grade core to the deposits, particularly in the Western Zone.

Further drilling work led to the announcement of a higher-confidence resource in May 2007 comprising an initial Indicated Resource estimate of 49.0 million tonnes grading 0.75% Ni, and including a higher-grade resource based on a 0.7% cut-off of 25.0 million tonnes grading 0.89% Ni.

When combined with the initial Inferred Resource estimate announced in January, the combined resource totals 52.8 million tonnes grading 0.79% Ni (using a 0.5% cut-off), or 26.6 million tonnes grading 0.99% Ni (using a 0.7% cut-off). This represents a 26% upgrade.

Heron completed a Scoping Study on the Jump-Up Dam project during April this year. The results suggested that a proposed 5,000 tonne per annum (tpa) treatment operation should be doubled to 10,000 tpa.

The Study also estimated capital development costs at US\$300-\$350 million and operating costs at US\$3.00-\$3.20 per pound of nickel produced. With spot nickel prices around US\$13.50 a pound, this would generate a huge operating margin.

The results were encouraging enough for Heron to push ahead with a full Pre-feasibility Study, with the results of this Study anticipated before the end of 2007. We would then expect completion of a definitive study by the third quarter of 2008, with commercial production commencing during late-2009 and the completion of full ramp-up during 2010.



Let us now turn our attention to Heron's most important project in terms of its potential size, which is its Kalgoorlie Nickel Project (KNP). It currently involves a 40:60 joint venture with Brazil's CVRD. CVRD inherited the joint venture interest following its successful takeover of Inco of Canada.

The KNP is a potentially world-class nickel laterite project, situated in the Kalgoorlie Goldfields district of Western Australia. The project ranks as Australia's largest undeveloped laterite nickel deposit. The KNP has the potential for a 30-40 year mine life.

The project hosts a global resource of 903 million tonnes of 0.74% nickel mineralisation for an estimated 6 million tonnes of contained metal.

The joint venture aims to create a 50,000 tpa nickel-in-concentrate project (Heron's share 20,000 tpa) using High Pressure Acid Leach (HPAL) technology.

The joint venture is on track with respect to the first two of four project milestones. Step 1 was completed during 2006, with the completion of 53 diamond drill holes to confirm earlier drilling, as well as metallurgical test work. This work recently confirmed a leach feed resource of 120 million tonnes @ 1.5%

Ni.

Inco proceeded to Step 2 of the Pre-feasibility Study in September 2006. The joint venture is currently completing a US\$2 million program during the first six months of Step 2. Subject to meeting technical milestones, CVRD is sole funding the Study at a minimum cost of US\$18 million.

CVRD has just completed its Step 2 commitments, which involved Step 2 leaching and beneficiation test-work and determining the appropriate drilling methods and spacings to complete the Step 3 drill-out. Step 3 involves resource and engineering work that must be completed by January 2009.

CVRD has until 30 November this year to commence the third and last step of the Pre-feasibility study which would take approximately 14 months. This will include a significant drilling program to increase confidence in the resource, as well as ongoing metallurgical testwork on leaching the nickel laterite slurry in tanks at atmospheric temperatures and pressures.

Heron believes all is on track for completion of a Pre-feasibility Study by early 2009. Inco can then earn its full 60% stake in the KNP by completing a Bankable Feasibility Study by July 2011 and securing project financing.

With interests in two emerging nickel projects and the dynamic tension provided by the world's two biggest mining houses, we maintain our firm view that Heron Resources is an unique opportunity with little apparent downside.

Accordingly, Heron Resources will remain firmly within the Fat Prophets Mining and Resources portfolio. For Members with no current exposure, we recommend the stock as a Buy around \$1.12.

To view Mint Financial Group's disclaimer please [click here](#).

Copyright © 2002 Fat Prophets. All rights reserved.
No portion of this website may be reproduced, copied, or in anyway
reused without written permission from Fat Prophets.

DESIGNED BY ENDORPHIN INTERACTIVE POWERED BY EONE - INTEGRATED BUSINESS SOLUTIONS