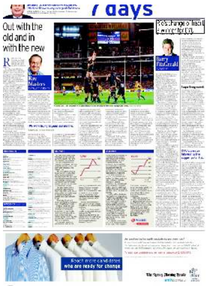
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Out with the old and in with the new

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Rio's change of heart a winner for CYU

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GARIMPEIRO

AS CONTROVERSIAL as it was, Rio Tinto's decision in June to walk away from its $US19.5 billion ($23 billion) refinancing deal with China's Chinalco was good news for the Brisbane-based China Yunnan Copper Australia (CYU).

Listed in October 2007 and floated on the back of greenfields exploration projects in north Queensland, CYU also had a mandate to pick up more advanced copper projects which would be too big for the average junior exploration company to handle.

The mandate comes from its 22 per cent cornerstone investor, China's Yunnan Copper, which, in turn, is 49 per cent-owned by Chinalco. That gives CYU some serious firepower in being able to follow through on the right sort of deal. But all that was threatened by the Rio/Chinalco deal because CYU would have ended up as a direct competitor to the $US500 million global exploration/development fund that Rio was going to run as part of the now defunct Rio/Chinalco alliance.

Now that has fallen through, the clear instruction to CYU from China is for it to continue with its exploration hunt in and around Mt Isa and Charters Towers but, more importantly, to resume its hunt for company-making asset deals.

As luck would have it, there are a number of deals for CYU to pursue. They are coming from overstretched companies, or those that are looking for a long-term partner with the firepower that Chinese backing can deliver.

So CYU is set to be exposed to cash-generating projects much quicker than the normal junior would be. The funding hurdle that is normally fatal to small companies is not something CYU will face again. Not that you would suspect it from its modest market capitalisation of $14 million (17.5c a share) on Friday.

Apart from the Chinese interests, CYU is about 19 per cent owned by its Australian non-executive directors. Since listing there has been a significant build-up of Chinese retail shareholdings.

There is no significant institutional shareholder – yet. Presumably they are waiting for the larger deal to be delivered by CYU's managing director, Jason Beckton. The Melbourne University geology graduate told Garimpeiro that CYU was non-patriotic when came to where it might find the right deal. He said that CYU had two potential deals on the go at the moment, one of which was in Australia. Beckton said one of the deals was very close to being sealed.

Beckton's search also takes in the copper belts of Chile, the US and mainland China.

While the market waits on the first of the "big" deals to be secured, the group's greenfields exploration has also been stepped up. In the space of 72 hours last week, CYU unveiled two soft deals that gave it the running on two interesting projects – a joint venture on Goldsearch's Mary Kathleen copper, gold, uranium and rare earths project and the acquisition of an epithermal gold prospect in north Queensland's Pentland district.

The Mary Kathleen joint venture could provide some excitement as the project area includes a non-compliant (for stock exchange reporting requirements) uranium resource. Getting it to the compliant stage will be a priority, but CYU's greater interest at this stage is the copper potential.

Previous exploration by others included 2.3 metres grading 0.262 per cent uranium oxide. The grade from the old Mary Kathleen open-cut was 0.12 per cent uranium oxide.