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Copper minnow reaping rewards of Rio's China backflip

The failed Chinalco deal is great news for Brisbane's China Yunnan Copper

CHINA YUNNAN COPPER AUSTRALIA As controversial as it was, Rio Tinto's decision in June to walk away from its $US19.5 billion ($A23 billion) refinancing deal with China's state-owned Chinalco was good news for 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 that would be too big for the average junior exploration company to handle.

The mandate came from its 22 per cent cornerstone investor, China's Yunnan Copper, which, in turn, is 49 per cent-owned by Chinalco. That gave 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 the Rio-Chinalco compact is no longer, the clear instruction to CYU from China is for it to continue on with its exploration hunt in and around Mount Isa and Charters Towers, but more importantly, resume its hunt for company-making asset level deals.

As luck would have it, there are a number of asset deals available out there 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 that CYU will face, again for the right sort of deal.

Not that you would suspect all that from CYU's modest market capitalisation of $14 million (17.5¢ a share) on Friday.

Outside of the Chinese on the register, CYU is about 19 per cent owned by its Australian non-executive directors. And 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, who originally hails from Albury-Wodonga, told Garimpeiro that CYU is non-patriotic when it comes to where it might find the right deal.

He said CYU had two potential deals on the go at the moment, one of which was in Australia.

Without saying whether it was the Australian deal or not, Beckton said one of the deals was very close to being sealed.

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

While the market waits on the first of the "big" deals for CYU 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

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prospect in north Queensland's Pentland district.

The Mary Kathleen joint venture could provide some near-term 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 — including the Rio-CRA-controlled and since wound-up operator of the mined-out Mary Kathleen uranium mine — 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.

COOPER ENERGY Investing in junior oil companies on the strength of their cash-backing is not Garimpeiro's idea of fun.

But when a strong cash-backing can be matched up with a lengthening production profile and some high-leverage exploration for more of the black stuff, it does not hurt to have the protection of a tidy cash kitty.

That's the position that Perth-based Cooper Energy is in. At last count, its cash balance from profitable production from eight oilfields in South Australia's Cooper Basin had grown to $93.4 million.

That's 32¢ a share, which is interesting enough for a stock that closed on Friday at all of 43¢ a share. And with forecast production of 368,000 barrels in the 2010 financial year from a recoverable reserve base that has grown to 1.9 million barrels, there is a lot more cash to be delivered into Cooper's coffers in the years ahead.

But as already suggested, it is leverage to some exploration excitement that is Garimpeiro's real interest in the stock. The current bread and butter provider, the Cooper Basin, will continue to get worked over.

Cooper will be telling the operator Beach Petroleum that the recent campaign of six wells should be followed up by another four wells. They will be chasing up small oil pools of 100,000-150,000 barrels of recoverable oil at or near existing fields.

Not big by any means in the oil game, but at current prices, fields as small as 50,000 barrels can be nice earners in the Cooper Basin.

But if it is leverage punters are looking for, then look no further than Cooper's exposure to two upcoming international exploration wells, one offshore from sunny Tunisia and one gas play onshore in Indonesia. In Tunisia, Cooper has a 35 per cent interest in the Fushia oil prospect. It is ranked as a 46 million barrel target. So success would be a game-changer for Cooper. The joint venture is hoping to get government clearance to award a drilling rig contract in the next couple of weeks.

That would lead to the $US12.5 million (100 per cent basis) well being spudded-in sometime in October, maybe later in the final quarter if there are any hold-ups in the awarding of the drilling contract.

The drill date for the Indonesian gas play is more firm. Cooper has 30 per cent of the well which will test a 32 billion-cubic-feet gas target on the island of South Madura, off from Java. Cooper is excited about the well because if it comes in, it has a ready market for the gas at a power station up the road that would rather be using gas than diesel. as it now does.

'There is a lot more cash to be delivered into Cooper's coffers in the years ahead.'