Latin Resources digs deep in Peru ore quest

IPO watch

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Junior mining float Latin Resources is raising $5 million to do the seemingly impossible: develop a large iron ore project in Peru.

South America's third-largest country is better known for gold and copper production. Peru has only one commercially significant iron ore producer, the Chinese-owned mine, Marcona.

This could change quickly as other Chinese companies invest in Peruvian iron ore projects. Najinzhao Group is investing $US3 billion to develop the Pampa de Pongo project, which expects production of 10-15 million tonnes of iron annually from 2015.

ASX-listed Strike Resources has a 44 per cent interest in two Peruvian iron ore projects that could be bigger than Pampa de Pongo if they get to production.

Strike is moving towards a feasibility study on its Apurimac iron project, which has targeted annual production of 20 million tonnes.

Strike shares have fallen from above 90¢ in April to 55¢.

Other mid-cap stocks, notably Andean Resources, have recent success in South America.

Andean has had strong exploration results at its Cerro Negro gold project in Argentina, its shares soaring from 75¢ in 2008 to $3.66.

Mid-cap miner Mirabela Nickel is ramping up production at its large Santa Rita nickel deposit in Brazil, expected to be the world's second-largest open-cut nickel sulphide mine. But speculators appear more interested in newer mining-stock hotspots, such West Africa or Mongolia, than South America.

Latin Resources has spent three years and almost $3 million to gain a promising foothold in the emerging Peruvian iron ore industry.

The project began when Latin Resources managing director Christopher Gale and non-executive director Mark Rowbottom visited Peru after a US business trip.

Rowbottom and Gale run Perth corporate adviser Allegra Capital. Gale was founding chief executive of Swiftel, which merged with People Telecom in 2004.

Gale did three months due diligence on Peruvian mining, before working two years full time on the project.

The goal was finding iron ore assets close to infrastructure and the coast.

Gale believed Peru's iron ore potential had been underestimated due to the country's strong gold and copper production, and earlier civil unrest.

A breakthrough came in early 2009 when Latin Resources secured a $2.24 million convertible note from a subsidiary of Tony Sage's Cape Lambert Resources.

The subsidiary will be Latin Resources' largest shareholder with 17 per cent after 10 million options convert to shares.

The next boost was a deal with a subsidiary of Canada's largest diversified mining company, Teck. Latin Resources can reprocess information Teck collected in Peru in 2003, to help it find iron ore.

Float facts

Company: Latin Resources
Operations: Iron ore, gold and iron sands exploration in Peru
Full subscription: $5m
Maximum subscription: $6m
Issue price: 20¢
Market cap at listing: $25.5m
Offer manager: Melbourne Capital
Offer closes: August 6
Expected listing date: August 16
Website: www.latinresources.com.au

SOURCE: ASX

Latin Resources believes Teck's data provides a significant advantage over other explorers trying to buy assets in Peru's five recognised iron ore provinces.

In return, Teck gets certain royalty rights for any iron ore sales and a right to earn in to gold or base metals projects that Latin Resources discovers in the area.

Latin Resources' main asset is the Ilo iron ore project near Peru's border with Chile in the south.

The project is based on 22,000 hectares of granted concessions and 2,600 hectares of pending concessions.

Latin has applied for another 32,200 hectares of concessions based on Teck's data.

The company believes Ilo potentially has similar mineralisation to the Marcona and Pampa de Pongo iron projects and the making of a commercially significant asset due to its proximity to well-established infrastructure and Brazilian steel smelters.

Latin Resources also has a right to conduct due diligence on the San Antonio gold project and has signed two options (with six month due diligence) over the Guadalipito iron sands project.

Guadalipito's previous owner did considerable exploration; the gold projects are undeveloped. Latin Resources does not currently own either asset.

Latin Resources' multi-commodity strategy is unusual. The decision to target gold is based on general manager Stan Myers' 14 years as Newmont Peru's exploration manager.

The plan is drilling Ilo later this year and having a JORC-compliant resource within 12 months. Guadalipito could be sold to raise capital and accelerate iron-ore exploration.

Investors must decide if Latin Resources' $25.5 million valuation at the full subscription is justified given its large land holding, previous investment, management, and proximity to infrastructure.

Gale has built a team of 14, including six geologists, with considerable experience in Peru. The Ilo project is a few kilometres from the Pan American highway and close enough to the coast that iron ore could be trucked to a port.

Latin Resources' capital structure is based on 92.7 million pre-IPO shares, 10 million shares issued to Cape Lambert (after options conversion) and 25 million 20¢ IPO shares.

In all, there are 127.7 million outstanding shares.

Pre-IPO shares were issued between 10¢ and 20¢, meaning several cheaper shares could be sold on market when Latin Resources lists.

About 68 million shares are escrowed for two years.

Half of Cape Lambert's 22 million shares are escrowed for a year.

Another 11 million options have been issued.

Latin Resources proposes to issue one option for every five shares held, three months after listing, for 1¢ each.

On a fully diluted basis, Latin Resources has a decent market capitalisation for essentially a one-project company without JORC-compliant resources at this stage.

But the Perth company does have an interesting position in an interesting market, and is more advanced that many junior mining floats. The stock is clearly speculative.