



Estrella scrubs up well for Chile reception

IPO watch

Tony Featherstone

As most floats struggle to raise capital, Chile-focused explorer Estrella Resources expects to close its offer early after attracting Australian and Asian fund managers.

It wants to raise \$6 million to develop four early stage copper-gold projects in central-northern Chile, and drilling at its flagship project, Agustina, will start as soon as it lists.

Estrella is the second float this year to raise funds for South American projects. Red Gum Resources sought \$6 million to develop base and precious metal projects in Chile and Peru, and listed in January. Its 20¢ issued shares have fallen to 13¢ despite reasonable exploration results.

At least 10 floats in the past three years have raised funds for South American projects. Exploration interest has spread from projects in Chile, Peru and Brazil, to Colombia and Ecuador.

But South America-focused floats have mostly disappointed since listing. Condor Blanco Mines, Braziron, Elementos, Mayan Iron Corporation and Argentina Mining have sunk below their issue price. Shares in Tigers Realm Coal, which has Colombian and Russian coal projects, have fallen. Standout floats include Condoto Platinum and Hot Chili. Shares in Peru-focused iron ore explorer Latin Resources have also done well after a slow start.

Shares in Condoto Platinum, which is focused on Colombian exploration, have leapt from 20¢ to 80¢ since September 2010. Hot Chili, exploring for copper in Chile, has

rallied from 20¢ to 66¢ since May 2010.

Hot Chili's success is helping Estrella, whose Agustina project is about 100 kilometres south of Hot Chili's promising Productora project. Productora has an inferred and indicated resource of 85.1 million tonnes that contains 482,673 tonnes of copper and 289,606 ounces of gold that complies with the Joint Ore Reserves Committee (JORC) Code.

Hot Chili and Estrella have other similarities. Estrella is raising \$7 million and has a \$17.4 million market capitalisation; Hot Chili raised \$6 million and was valued at \$22.7 million at listing. Like Hot Chili, Estrella is targeting large iron-oxide-copper-gold style deposits. Hot Chili first targeted mostly uranium, but its focus has swung to copper.

Estrella was formed after Juan Pablo Vergas de la Vega, a Chilean and Australian citizen, met the boutique corporate adviser Helmsec Global Capital, which was lead manager on the 2010 floats of the Queensland coal explorers Carabella Resources and Endocoal. Helmsec liked his Chilean mining expertise and access to tenements through family connections. Juan Pablo is Estrella's general manager in Chile.

Estrella's managing director, Jason Berton, worked with Juan Pablo to assess 16 tenements, four of which would become the basis for the initial public offering.

Estrella has a strong board for its size. A non-executive director, Julian Bavin, spent 20 years with Rio Tinto, eight as its exploration director in South America, and is

based in Santiago.

Estrella non-executive chairman Gavin Solomon was a founding shareholder of Endocoal and remains a non-executive director. Endocoal shares have disappointed since listing.

Non-executive director Simon Kidston co-founded Endocoal and was a founding shareholder of Carabella. Solomon is Helmsec's managing director and Kidston is an executive director. They each own 4.82 million Estrella shares.

Berton, a specialist structural geologist, worked at BHP Billiton and Barrick. The hands-on managing director has studied several small-scale artisanal mines at Agustina to get a three-dimensional view of the orebody and sample it, and design the exploration strategy.

Berton sought projects that could be brought into production quickly and had low capital requirements. Access to infrastructure and ore-treatment plants were key criteria. A newly constructed copper processing plant is about 15km from Agustina.

Estrella wants to deliver a maiden JORC resource at Agustina by the first quarter of 2013 and fast-track the project into production within three or four years. There should be plenty of news within months of listing. Drilling is about to get under way.

Agustina should be accessible all year round. Water supply could be an issue, although ground water is available 13km from the project.

A project area of 18.5 square kilometres is small by Australian





standards. Estrella has secured full ownership of the 85 sq km Venus project, which is adjacent to Agustina. Venus also hosts several small artisanal workings and could provide extensions to known mineralisation at Agustina.

The Sydney company expects to issue most of its IPO shares to Australian and Asian fund managers.

Estrella raised \$1.6 million in seed capital in two tranches at 5¢ and 10¢ last year, mostly from institutions, some of which have taken more shares in the IPO.

Estrella is yet to disclose its top 20 shareholders.

Estrella's capital structure shows 87.1 million 20¢ shares, with 30 million issued through the IPO. Vendors and seed investors retain 65.5 per cent of Estrella.

Another 7.2 million options have been issued to Estrella directors, management and Helmsec, with 20¢ or 25¢ exercise prices and expiry dates in 2014 and 2016.

Estrella has a straightforward capital structure by junior IPO standards. Management, board and advisory fees are reasonable.

But the poor share price performance of most South American floats listing is cause for concern. And a chunk of Estrella shares issued in seed-capital raising come out of escrow about three months after listing.

Float facts

Company	Estrella Resources
Operations	Copper-gold exploration Chile
Minimum subscription	\$6 million
Offer price	20¢
Market cap	\$17.4 million (undiluted)
Offer closes	May 11
Expected listing date	May 22
Lead manager	Helmsec Global Capital
Website	estrellaresources.com.au

SOURCE: ASX