Spice up returns in Chile

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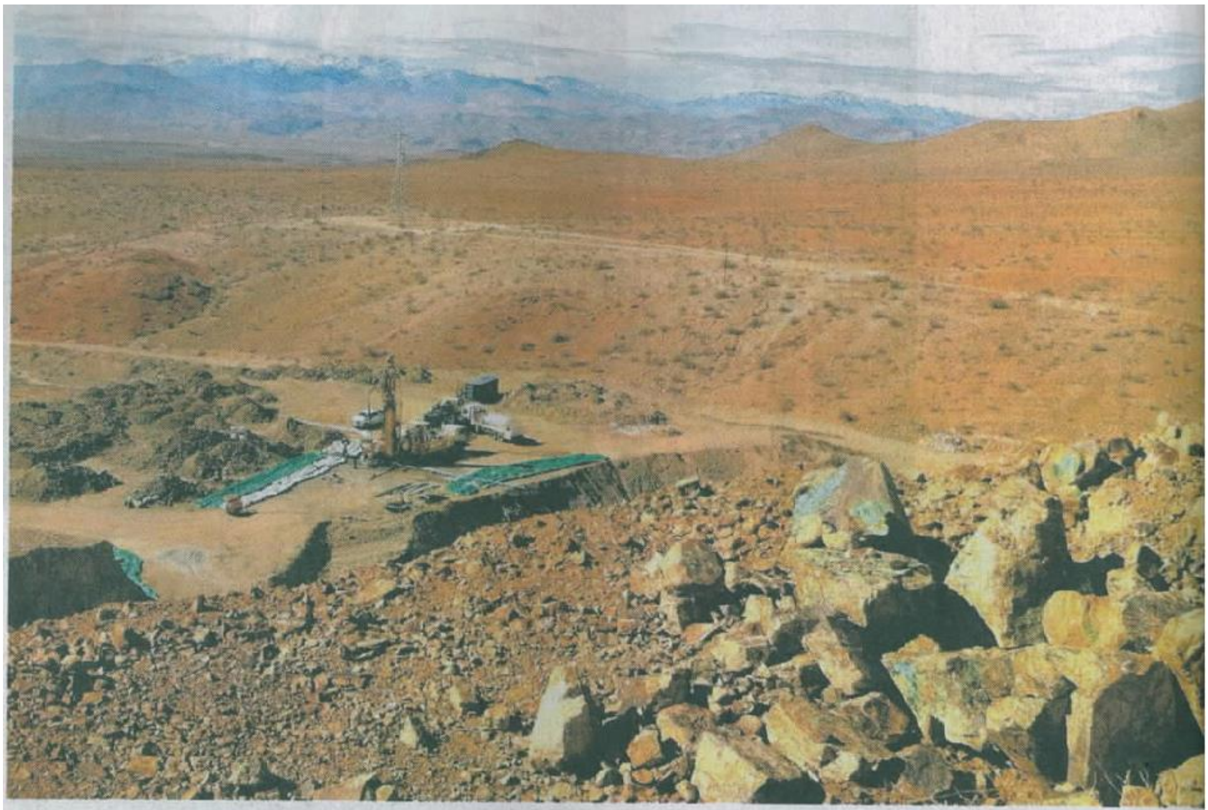


Hot Chili has confirmed another higher-grade zone at its flagship Productora copper project in Chile

Hot Chili. *Source:* TheAustralian

MARKET watchers out there proclaiming that the junior resources market is now a zombie market need their heads read. Sure, the rubbish stocks in the sector - and there are plenty of them - are facing a prolonged period in the deep freeze, and even the better ones are trading at half their levels of a year ago or worse.

But all that is history. It’s time to forget and reset. That’s what smart (read: selective) money has been doing, making a killing in the last couple of months in the better juniors, those with real projects under their belt in favourable locations, quality management, and enough cash to avoid having to make massively dilutive equity issues just keep the doors open.

ASX-listed and Chilean copper-focussed Hot Chili (HCH) is a prime example. Since slumping to a low of 34c a share in mid-December, Hot Chili has rebounded to 47c. That's a gain of 13c or 38 per cent if you don't mind. Buy the banks for yield but if it is over-sized capital gains punters are after, selective buying of the quality juniors can't be beaten.

The recent rebound in Hot Chili's share price - it was a 76c stock 12 months ago - is a response to the group's well-flagged strong newsflow in coming months on its copper/gold projects in Chile, plus the recent confirmation of another higher-grade zone at the flagship Productora project, one that underpins growing confidence that it had cracked the code to find more.

Hot Chili has said investors should watch out for a maiden reserve estimate for Productora soon, and a resource revision - the latter taken to mean a resource upgrade. A maiden resource estimate for the Frontera property is also not far off.

The maiden reserve for Productora, 15km south of Vallenar and at a comparatively easy-to-breathe altitude of less than 1000m, will pave the way for the completion of a pre-feasibility study later this year into a development, with the definitive feasibility study due to be finished in the second half of next year.

The current resource estimate stands at 920,000 tonnes of copper and 580,000 ounces of gold and what was a rough scoping study back in February indicated it could support a $500 million-$700m development producing some 55,000 tonnes of copper and 42,000 ounces of gold in concentrates annually. But expect a reworking of all that in the pre-feasibility.

That's all well and good but the real game-changer for the company is the previously mooted infrastructure deal with Chilean iron ore producer CAP/CMP that would smooth the way for Productora's development.

Hot Chili said earlier this month that such a deal was on track, remembering that CAP (through its subsidiary CMP) is now a 12.6 per cent Hot Chili shareholder.

More to the point, CAP presumably sees an alignment with Hot Chili as a way to add a copper string to its bow, leveraging off its existing iron ore export infrastructure.

It gives Hot Chili's copper ambitions a real shot compared with the ambitions of any number of other juniors looking to make a go of it in South America's at-altitude copper belts.

As infrastructure negotiations with CAP advance, Hot Chili is now turning its attention to funding options. The company has received strong interest from numerous international resource and commodity houses and has signed confidentiality agreements with several of them to advance discussions on that front.

South American copper giant Lundin is also adding some spice to the Hot Chili mix. Lundin holds about 8 per cent of Hot Chili, giving it an early seat at the table alongside the likes of resources funds Taurus (12.6 per cent) and affiliates of Sprott (6 per cent). The quality of the names on the register says a lot about Hot Chili's chances of becoming a Chilean copper producer.

Back in this market, Canaccord Genuity recently placed an 86c-a-share price target on the stock. DJ Carmichael had a 99c target on the stock back in December, and before that Macquarie set a 12-month target of 93c a share. All of those are substantially higher than the current share price. Getting to the suggested higher levels will depend on thenews flow from Hot Chili living up to expectations.

Unity Mining (UML)

NEWCREST chief executive Greg Robinson last Friday had a number of theories for the rally in gold prices to 2 1/2 month highs in US dollars terms, and five-month highs in the local currency.

The most easily understood of them was that physical demand for gold remains "very, very strong". Never a truer word spoken, as demonstrated by the news out of Canberra that a one-tonne gold-bearing rock at the National Rock Garden (yes, it really does exist) was stolen last Thursday.

While that's an extreme example of the depth of demand for the yellow metal, the point is made that very strong demand, particularly in China, is a real factor in the run-up in prices to $US1326 ($1463) an ounce.

Gold equity values have been on the improve in line with the metals rally, turning the taps back on for equity raisings, more for the producers than the explorers.

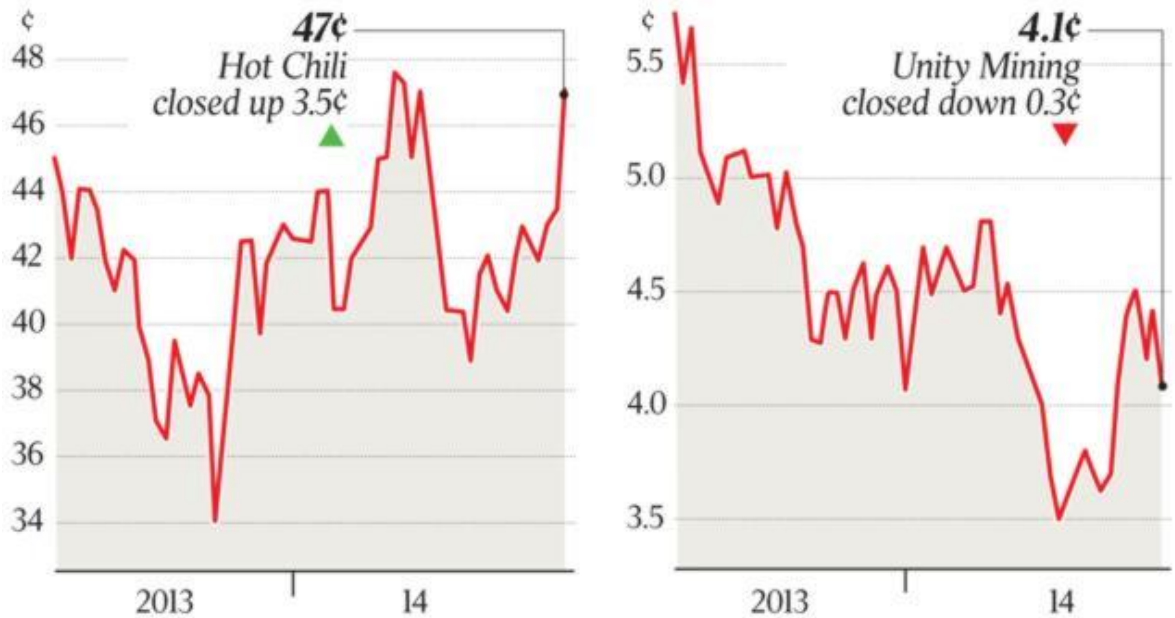
Unity Mining (UML) - which funnily enough supplied the missing rock, with its blaze of white "buck" quartz, to the National Rock Garden from its now defunct Bendigo mine - added its name yesterday to what will be a growing list of gold producers tapping the improved sentiment for gold equities.

It is raising $5m from an underwritten share purchase plan, with the new shares to go off at a 17.5 per cent discount to the five-day average of its share price immediately before the offer closes on March 11. From that, it can be assumed that Unity must be bullish on the gold price, and confident that its Henty mine in Tasmania is back on track.

Unity needs free cash from Henty to help complete the development of its Dargues Reef project in NSW, currently on ice pending a cost review aimed at slashing the development cost. Dargues Reef also needs government clearance for its gold concentrates to either be treated in NSW or at Bendigo.

Unity has spent $23m on the project, which has an estimated cost to complete of $70m, excluding the targeted cost savings. So a sizeable funding gap remains, even with some $9.7m in cash.

Still, with forecast cash costs of about $700 an ounce now being less than half of the current local gold price, development prospects for Dargues Reef have brightened considerably.



Source: Bloomberg