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Spitfire A Winner From A Re-Start Of The Great Manganese Game

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By Our Man In Oz

Trust Brian Gilbertson, the master deal maker of BHP Billiton fame, to put manganese back in the news with a classic pot-stirring deal involving Australia's OM Holdings and an undeveloped resource of the steel-hardening mineral in his home country, South Africa. In a move guaranteed to annoy his arch-rival, Ukraine's Gennadiy Bogolyubov, Gilbertson has moved to marry OM with his one of the businesses he runs, Pallinghurst Co-Investors. If successful, three things might happen. Gilbertson might achieve his aim of being a force in the world of manganese or, Bogolyubov might fight back and launched a rival bid for OM or, the entire manganese sector might be re-valued as the old bulls battle it out.

Of those three events the most likely is an uplift in the entire manganese sector as investors re-acquaint themselves with the fact that the world is short of the stuff, and that the price has returned to an historically attractive US\$6 a dry metric tonne unit which is the odd measure in which manganese is sold). Recognise that, and the question shifts from what Messrs Gilbertson and Bogolyubov are doing, to what's an attractive entry point into the manganese business, and the answer is emerging explorer/miners such as Spitfire Resources.

Small by any measure Spitfire has one major advantage, which is actually the same as that sought by all property investors; location. Its prime asset is the South Woodie Woodie tenement package which lies about 50 kilometres south of the Woodie Woodie mine acquired by Bogolyubov when he was waging a titanic struggle against Gilbertson, and others, for control of Consolidated Minerals and Woodie Woodie. Over the past few years the East Pilbara region which hosts the assets of Spitfire and Consolidated has been re-interpreted as an extensive manganese belt.

"We have been able to establish an initial JORC-code resource at the Tally-Ho deposit, but that should be just the start," said Spitfire managing director, James Hamilton when chatting with Minesite earlier this week. "The plan now is to step up our drilling with a programme of reverse circulation and diamond drilling to test for extensions to Tally-Ho. As that work continues we're making good progress on a pipeline of exploration targets, including an area earmarked as a priority because of its potential to contain Woodie Woodie style mineralisation about one kilometre north-west of Tally-Ho."

The exploration work of Spitfire is interesting, but mainly to geologists who like the location. Of equal interest in the company as an investment is its focus on a commodity which has attracted some of the canniest players in the mining game. What happens between Gilbertson and Bogolyubov will not directly affect Spitfire, but it will affect the manganese industry, and that will affect Spitfire.

The current state of the great manganese game, which actually started some years ago but was postponed thanks to the global financial crisis, sees Gilbertson's Pallinghurst Investors (a group which includes Korean steel maker, Posco, the merchant bank, Investec, and AMCI, a private investment company headed by Gilbertson associate, Hans Mende) snap up a 22 per cent stake in OM by selling it the Tshipi project in South Africa for an issue of 139.9 million shares. The deal should make OM, which already operates the Bootu Creek manganese mine in Australia's Northern Territory, a globally-important manganese producer.

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But, and this is a big but, OM already has the Bogolyubov-controlled Consolidated Minerals as a 12 per cent shareholder. If the Pallinghurst deal proceeds Bogolyubov gets watered down to 9.3 per cent, and Pallinghurst emerges with effective control of Bootu Creek and Tshipi, especially if its 22 per cent is counted as friendly to the Singaporean interests which already own 23 per cent of OM. In other words the Pallinghurst play seeks to satisfy several objectives. It creates a bigger manganese player, restores Gilbertson's reputation as a deal-maker, and thoroughly annoys Bogolyubov.

What happens next? That is the big question because Bogolyubov really has just two choices. He risks being seen as a watered-down loser, or he trundles out the takeover bid he has been keeping in his back pocket for the past year – if he can afford it given the parlous state of the Russian and Ukrainian steel industry which is where his shrinking fortune lies.

The media will watch with fascination as Gilbertson and Bogolyubov lock horns because there is nothing quite like the sound and fury of head-butting egos. Savvy investors will see the re-start of hostilities to take a wider look at the manganese market and identify who else might benefit, especially if they look behind the game and see what's driving it – rising worldwide demand for manganese which fulfils an essential use as a steel hardener, especially for so-called “long products” of the type used in the construction of the railways and bridges which China is undertaking with gusto as part of its post-GFC economic stimulation package.

It is this a combination of factors, rising manganese demand, the boys playing a game of “mine's bigger than yours”, and the encouraging exploration success at South Woodie Woodie which puts Spitfire in the frame for a possible re-rating as events unfold.