

Musgrave heads for the hinterland

IPO watch

Tony Featherstone

Most small mining floats talk up previous exploration and proximity to other deposits. Musgrave Minerals' main attraction is a large tenement holding in a barely touched mining province.

Musgrave will raise \$20 million to explore Musgrave Province, which spans the South Australia, Western Australia and Northern Territory borders. It is the year's second largest exploration float.

A tenement package covering 50,000 square kilometres gives Musgrave a big footprint in an area it describes as "one of the last, under-explored exploration frontiers in Australia". With that comes huge risk, even by mining float standards. Musgrave has early-stage assets in a highly remote area in Central Australia, where infrastructure and access are challenges.

These risks did not deter investors who snapped up Musgrave stock and ensured its \$15 million offer was over-subscribed by \$5 million. The company is due to list on April 29.

Musgrave stands out in a crowded initial public offerings market for explorers. Six mining and exploration companies are cornerstone investors and Musgrave is among few South Australian explorers to list in recent years. It gives speculators leverage to "elephant country", without leaving Australia.

Musgrave was put together by non-executive chairman Graham Ascough, also managing director of Mithril Resources, a tiny nickel-copper explorer whose shares have lost an average annual 15 per cent over five years.

Ascough convinced the Mithril

Float facts

Company:	Musgrave Minerals
Operations:	Nickel, copper exploration, SA
Final subscription:	\$20 million
Issue price:	25¢
Market capitalisation at listing:	\$30.2 million
Expected listing date:	April 29
Lead manager:	Blackwood Capital
Website:	www.musgraveminerals.com.au



SOURCE: FINANCIAL REVIEW

board, Independence Group, Goldsearch, Integra Mining, Argonaut Resources, and Barrick (PD) Australia to vend their Musgrave Province tenements into Musgrave Minerals.

That was not easy. Rarely do six companies vend 100 per cent of most of their tenements in an area into a new venture. Agreeing on tenement valuations was difficult. The six cornerstone investors and early shareholders will keep 34 per cent of Musgrave stock at the \$20 million capital raising.

Five of the companies secured a combined 40 million Musgrave shares as a priority offer for their shareholders. Another 40 million shares were available to the public (including oversubscriptions), a reason the float closed on time, even though it was launched in the week the earthquake and tsunami struck Japan.

Musgrave has enough capital to fund an aggressive two-year exploration program, and will need it. Musgrave Province exploration has been limited since the Anangu Pitjantjatjara Yankunytjatjara

(APY) Land Rights Act 1981 (SA) was passed, but access has improved in recent years. The Musgrave Province in South Australia lies almost entirely within APY lands.

WMC Resources' discovery of the Nebo-Babel nickel-copper deposits on the Western Australian side of the province (West Musgrave) in 2000 sparked interest in the region. BHP Billiton is still exploring Nebo-Babel.

Musgrave managing director Robert Waugh led the Nebo-Babel discovery. He left BHP Billiton in 2007 to join Fusion Resources, a small uranium company that had exploration success near Mount Isa. Paladin Energy acquired Fusion for \$17.8 million in early 2009.

Waugh was an obvious choice to lead Musgrave, given his knowledge of the geology and eight years in the area. The hope is that Nebo-Babel mineralisation extends into Musgrave's tenements and that, like Nebo-Babel, a discovery can be made soon after the area is opened up for exploration.

Musgrave's other key executive is exploration manager Justin Gum, who worked in the South Australian

Department of Primary Industries and Resources' Musgrave Province team in the APY lands for six years. Gum and Waugh clearly have strong local knowledge.

It is a challenging area to explore, partly because of the remoteness and Native Title issues, and because there is no single commodity focus. The early focus is finding nickel-copper deposits, but several commodities could be present, so underexplored is the area.

Musgrave holds seven granted exploration licences, with cleared exploration access to areas totalling more than 3200 square kilometres. It expects to be granted eight other tenements soon after the IPO.

Limited previous exploration has given Musgrave two drill-ready targets, to be drilled from May. Airborne surveys and other work will be carried out on other tenements in parallel. With a \$10 million exploration budget in its first year, Musgrave should have plenty of early news after listing.

The capital structure is clean and tight. At the \$20 million offer, there are 121 million 25¢ outstanding shares, for an indicative market capitalisation of \$30.2 million at listing. About 66 per cent of shares have been issued through the IPO.

Investors must decide if the \$30.2 million valuation is fair, given Musgrave's cornerstone shareholders, large position in an under-explored area and its technical team, which has a good record of discovery in the area.

Musgrave arguably offers more share price leverage than many similar-size mining IPOs if results go its way. But it is also among the year's riskiest floats and clearly only for speculators who understand the pitfalls of investing in early-stage assets in underexplored areas.