

**Updated:** New York, Aug 22 03:17

London, Aug 22 08:17

Tokyo, Aug 22 16:17

Search News[SYMBOL
LOOKUP](#)[HOME](#) [NEWS](#) [MARKET DATA](#) [INVESTMENT TOOLS](#) [TV and RADIO](#)[ABOUT BLOOMBERG](#) [CAREERS](#) [CONTACT US](#)**investment
tools**

- [Portfolio Tracker](#)
- [Market Monitor](#)
- [Fund Center](#)
- [Calculators](#)
- [Wireless](#)
- [Financial Glossary](#)

RESOURCES

- [Bloomberg TV](#)
- [Bloomberg Radio](#)
- [Audio/Video Reports](#)
- [Bloomberg Podcasts](#)
- [Bloomberg Markets](#)

Company News[QUOTE](#)[CHARTS](#)[NEWS](#)

JBM:AU

Jubilee Mines NL**Packer, Forrest Buy Nickel Explorer Shares, Shunning Producers**

By Tan Hwee Ann

May 11 (Bloomberg) -- James Packer and Andrew Forrest, two of Australia's richest men, are investing with the view that companies exploring for nickel deposits will fare better in the stock market than those already producing the metal.

Packer, who controls the country's biggest casino operator, this month bought a stake in Toronto-based Landore Resources Ltd. Forrest plans to buy shares in Niagara Mining Ltd. of Perth. Neither company has working mines yet.

Bloomberg**BLOOMBERG
RADIOSM on
bloomberg.com.****Click here.**

Shares of established producers in Australia such as Minara Resources Ltd. have already soared on record prices for nickel, a key ingredient in stainless steel. That makes start-ups and explorers probably a more appealing investment, said Sydney-based money manager Michael McCormick.

"The emerging guys just haven't had such a big run and they have been ignored," said McCormick, who helps manage A\$350 million (\$290 million) at Leyland Private Asset Management and owns stocks in explorer Allegiance Mining NL. Nickel producers have larger market values so new mines have less effect on their share prices than on those of explorers, he said.

Shares of Australia's three biggest nickel producers, Minara, Jubilee Mines NL and Sally Malay Mining Ltd., doubled or tripled last year. The stocks are trading as much as 80 percent above net present value, compared with about 22 percent for Jubilee two years ago, according to calculations by Hunter Hillcoat, an analyst at Austock Securities Ltd. in Sydney. Explorers are cheaper, he said.

'Substantial Premium'

Albidon Ltd., an Australian explorer whose Zambian mine won't start until 2008, is trading at a 20 percent discount to net present value, he said. Net present value is a calculation of the current value of expected cash flows based on, among other things, a forecast for metals prices.

"The established producers are trading at a substantial premium," Hillcoat said. Explorers are "obviously higher risk as these companies don't have history, but the upside is so much greater."

Forrest, chief executive officer of Fortescue Metals Group Ltd. in Perth, said in an interview that he agreed on the risk and that there's only a 30 percent chance

Niagara will find enough ore to justify production. That's enough for him because exploration normally has a 1 percent success rate, he said. Forrest and his partners are buying 4.5 percent of Niagara, with options to take up to a 35 percent stake.

China, India

“Nickel demand has shifted very substantially, and the economies of China and India would need at least 50,000 tons of new nickel a year,” said Forrest. He's Australia's ninth-richest man, with a \$1.3 billion fortune, according to Forbes magazine.

Forrest's Fortescue is building a A\$2.2 billion iron ore mine and port in Western Australia and he wants to secure supplies of nickel for steel mill customers. A A\$1,000 investment in Fortescue in July 2003, when Forrest became chairman, would be worth A\$139,230 now.

The nickel price has jumped sixfold in the past five years to a record \$51,625 on May 4 as Chinese steelmaker demand surged and two of the world's largest nickel mines under construction were delayed.

Some analysts are skeptical about nickel companies, regardless of whether they're currently producing the metal.

The record price for the metal is spurring many projects that will lead to “significant oversupply,” in two years, said Pieter Bruinroop, an analyst at Ord Minnett Ltd., in Melbourne. Chinese steelmakers are also producing nickel pig iron, a replacement for the pure metal, he said.

‘Rearview Mirror’

`` Jumping into nickel explorers is investing via the rearview mirror," said Bruinstroop. The price of the commodity will likely fall to \$24,450 a ton in the fourth quarter of the year, according to a Bloomberg survey of 11 analysts.

The rise in nickel prices has prompted a flurry of takeover offers for nickel miners, with Inco Ltd. and Falconbridge Ltd., both of Canada, acquired last year. Xstrata Plc and OAO GMK Norilsk Nickel are now competing to buy LionOre Mining Ltd. A deficit may extend until 2009, said Deutsche Bank AG.

Packer's Consolidated Press Group in April said it would buy 17.5 percent of Landore. Packer is Australia's richest man, with a net worth of \$5.5 billion, according to Forbes. He didn't reply to a request for comment. Both Niagara and Landore, listed in London, shot to records after the respective stake purchases.

` Initial Investment'

`` Any commodity that goes through the price move we have seen for nickel attracts a lot of interest, and the initial investments are in the producers, giving investors leverage to rising prices," said Darko Kuzmanovic, who manages \$38 million at David W. Tice & Associates LLC in Sydney. `` After that, people look for the next thing that's cheaper."

Kuzmanovic holds stock in Perth explorer Mirabela Nickel Ltd. He sold some of the shares after they rose past A\$6 from his purchase price of 75 cents. They traded at A\$6.80 yesterday.

Niagara, Allegiance, Breakaway Resources Ltd. and other start-ups and explorers could have twice the gains of existing producers in the next 12 months, said Peter Arden, an analyst at Intersuisse Ltd. in Melbourne.

Shares of Albidon have gained 82 percent this year. Allegiance, whose mine in

Tasmania won't start until late October, has risen 128 percent, shooting past targets set by the three analysts covering the stock. Mirabela, which wants to build a Brazilian mine, has gained 106 percent.

Among producers, Jubilee Mines is up 16.3 percent this year, Minara Resources is up 58 percent and Sally Malay has more than doubled. Jubilee's stock jumped 135 percent in 2000 when it became a producer.

"Building and industrialization appears to be strong and I don't see any indications it will weaken," said Roger Whiteoak, who holds Albidon stock for the 1 billion pounds (\$2 billion) Framlington UK Smaller Companies Fund in London.

"These smaller nickel mines are creating value, and as long as they've got good asset and management, it's a good place to invest in."

To contact the reporter on this story: Tan Hwee Ann in Melbourne at

hatan@bloomberg.net

Last Updated: May 10, 2007 10:57 EDT

[News tools](#)  [Email this article](#)  [Printer friendly format](#)

Advertisement: You've worked, you've saved, now PROTECT your nest egg.

Sponsored links

Bloomberg.com [NEWS](#) | [MARKET DATA](#) | [INVESTMENT TOOLS](#) | [TV AND RADIO](#) | [ABOUT BLOOMBERG](#) | [CAREERS](#) | [CONTACT US](#) | [LOG IN/REGISTER](#)

©2007 BLOOMBERG L.P. ALL RIGHTS RESERVED. [Terms of Service](#) | [Privacy Policy](#) | [Trademarks](#) | [Site Map](#) | [Help](#) | [Feedback](#) | [Advertising](#) | •••••