



Cashflow now, cash cow tomorrow?

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Rusina's business plan seems to be unfolding nicely at Acoje, but we're still at the beginning of the larger story...

Plenty of water has flowed under the bridge at Acoje since Proactive last covered Rusina a little over a year ago. Since cash drowns out all other voices, let's start with that.

Rusina has plentiful cashflow.

Rusina's FD should be a very chirpy chappy these days. Rusina is banking regular cheques and does not need money. Shipments of around 50,000 wet tonnes of laterite ore are making their way from the Philippines to China every 10 days or so. According to the company's own profit / grade / nickel price graph, Rusina should net between \$US10m and US\$20m in annualised operating profit at current grades and prices and more than covers Rusina's exploration spend. Not bad for a company with a £30m (AUD62m) market cap, especially when you consider the 830KT of nickel Rusina is sitting on, not to mention chromite and PGMs.

That's pretty much diving in at the deep end. Let's clamber out and view Rusina and its projects from the high board.

Acoje.

Dual-listed Rusina owns numerous properties in the Philippines, but leading the pack by a country mile is Acoje. Acoje is a large tenement with a 15km strike length in the north of the Philippine archipelago, conveniently near the coast of China – in fact the nearest laterite deposit to the resource-hungry behemoth.

Acoje is geologically complex and hosts several different styles of mineralisation including nickel laterites, chromite and PGMs. Rusina has evolved a strategy for extracting value from each of these, involving crucial joint ventures with big fish Philippine partner DMCI, and a second with European Nickel. DMCI already owns 20% of Acoje.

Short-term cashflow is already coming from the at-surface laterites which comprise limonites, overlying rather harder but higher-grade saprolites. JORC resources of both types amount to 48.8MT (80-90% indicated) at 1.13% Ni. It is the lower-grade scrape-off-the-surface limonites which are currently being exploited for quick cashflow.

Rather than employ its own mining fleet, build a port, market and finally ship the ore, MD Rob Gregory chose to joint venture the project with experienced Philippine operator DMCI. The price – 50% of the profits – represents a good deal, for two reasons. Firstly, it eliminated Rusina's need to find capex. Secondly, it utilised DMCI's mining skills,



personnel and contacts – DMCI provides the workforce and absorbs more than its fair share of operating risk. However, this deal is for just 5MT over 5 years – 10% of the Acoje laterite resource. It puts bread on Rusina's table but it is not the long-term future.

The shipping alliance is just the first project of several in a flourishing partnership with DMCI. Also in the pipeline, Rusina and DMCI are fast-tracking a feasibility study to process further Acoje laterite ore, to the tune of 5-6,000tpa of nickel metal. This is a very different project which looks to use DMCI's nearby Semirara coal mine to fuel a calcine kiln and probably even an electric arc furnace. The idea is to create and ship a more remunerative intermediate product. If it ultimately goes ahead, Rusina will enjoy a free carry of 40%. Rusina's challenge will be to provide saprolite ore at a consistent grade of 1.7% or better. The end product would be an added-value nickel / iron product in one of several forms, depending upon which of four processes is finally adopted. It is to some extent reliant upon buoyant nickel prices which those smart people who study these things say will be around for the next 5 years or so.

European Nickel.

Nickel prices cannot be buoyant forever, though, and this is where Rusina's parallel joint venture agreement with European Nickel comes in. There is also the question of size; the first two projects are limited in scope, but there are 49MT of laterite at Acoje to exploit, and another 23MT at almost identical grades at the ZCMC property next door. Therefore, the Joint Venture with European Nickel is hugely important.

As a rule, inexpensive heap leach technology doesn't work well for laterites, but tropical high-clay laterites seem very amenable to a process technology jointly owned by European Nickel and BHP, which Gregory describes as world-leading. A pre-feasibility is underway for what should be a low opex method of producing a nickel hydroxide product attracting 75% of the LME nickel price – five or six times greater per shipload than the current ore, with consequent transport cost reductions. 95% recoveries after just 3 weeks on preliminary metallurgical tests suggest that the project should be viable down to a nickel price of \$3/lb – a quarter of what it currently is, and securing Acoje's long-term future. The very nice fillip is that heap leaching should also recover the cobalt trapped in the laterites, effectively raising the nickel grade from 1.13% to around 1.5%. Cobalt is wasted in the current ops.

The only major consumable in this process is sulphuric acid, which happens to be a sulphide-deposit by-product. Hence the recent acquisition of the Barlo tenement, just 18 miles away can be an effective hedge to wayward acid prices. This property used to be owned by the company which ran Acoje, and current employees from those days are familiar with it. It should fit well.

\$500m is a guesstimate for capex. At that point, Rusina would need money, but only 40% of it. DCMI are onboard with this and retain a 20% interest, while European Nickel are earning in to a 40% share. They recently raised their stake in Rusina to 3.6% and are very keen, having been stalled at their Turkish Caldag project. One man's meat...

Acoje PGMs and Chromite.

Starting in 1935, Acoje was mined for chromites for well over half a century, and there are around 50km of old drives. Despite this, much of the deposit is still reported to be intact. Mining stopped because of a combination of low mineral prices and flooding of the lower levels.

Gregory reckons enquiries about restarting mining the chromite, which is particularly high-quality, are a weekly event. His stock answer is "not soon". It will take quite a bit of drilling to prove up a resource, and capital investment of \$30-50m to get a mine up and running again. However, quality chromite fetches over US\$300/t compared to US\$70/t when mining ceased, so is very high on the agenda. The eventual plan is to engage another partner to exploit this deposit. Confidentiality agreements have already been signed.

The sweetener for a potential partner is that both PGMs and nickel sulphide are strongly associated with the chromites. PGMs at Acoje tend to occur in multiple small pods of higher concentration where these contact chromites. Rusina is currently sinking exploration holes in the six most promising of some 57 IP anomalies. Previous grades include 6.5m at 9.87g/t and 6.9m at 6.76g/t PGM.

In the meantime, 'lump chromite' is lying about on the surface of the neighbouring Zambales chromite property, said to have 1MT of the stuff. Local 'garimpeiros' were active at Zambales, but Rusina has astutely turned this annoyance to



advantage, and now employ them to find the lump chromite. Rusina are allowed to move and ship 3,000 tonnes per month from the property, fetching about US\$1m pa. A nice bonus.

Sodaco.

According to Rob Gregory, DMCI views Rusina as its exploration arm, and this is nowhere clearer seen than Sodaco (40% Rusina, 60% DMCI). Sodaco is probably the most interesting of a number of exploration properties that came bundled with the DMCI joint venture, not least because it exists completely inside Xstrata's Tampakan property. Tampakan houses an eponymous world-class copper-gold mine containing 2.2BT of copper. It turns out that Sodaco houses a rather sweet-looking IP hot spot which Rusina will be drilling as soon as exploration permits allow. If it proves similar enough to the Tampakan mine, Rusina and DMCI may well be sitting down with Xstrata to negotiate a deal. Sale would provide handy cash for capex elsewhere.

The Investment Case.

Nothing is without risk, but Rusina has done a lot to mitigate it through its joint ventures. Politically, where one hears of communist or Islamic insurgencies, these are generally in the southern islands and well away from Acoje.

In an environment where delays are standard and cost-overruns are the norm, Gregory and his team are to be congratulated on timely performance, high-quality joint ventures and the achievement of early cashflow with no capex worthy of mention. Like virtually every other junior miner and explorer, Rusina is undervalued, but if management track record is taken into account, Rusina could justifiably trade at a premium. £30m for a company already producing over £5m free cash pa from a modest start-up operation is hardly demanding.