Near-Term Copper and Nickel Cash Cow Deserves Re-Rating

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TORONTO (ResourceInvestor.com) -- As readers are aware, your correspondent is of the belief that near-term producers present the best risk/reward choice in this market, because they allow investors to:

1. Capitalize on the construction window discount;
2. Take advantage of high commodity prices soon;
3. Guard against a correction with an underpinning of solid fundamentals and cash coming in.

One very attractive story that fits this mould is Globestar Mining [TSXv:GMI] with a current market capitalization of about C$40 million, and trading at C$1.26 per share today.

Globestar is focused on the Dominican Republic, and controls a near-term producing copper asset which will throw off tremendous cash flow, and 198 square kilometres of nickel laterite concessions which have recently produced high-grade nickel results at surface, right next to a Falconbridge nickel mine currently looking for high-grade feed.

Copper
At the company's 100% owned Cerro de Maimón mine, located approximately 70 kilometres northwest of the DR's capital, Santo Domingo, Globestar will produce 30 million pounds of copper per year for a long, long time, at a life of mine cash cost of 49 cents, thanks to abundant gold and silver credits.
The heavy lifting in terms of financing the project has already been done, and production is expected to commence sometime in Q4-2007.

This is a fairly straightforward situation, and a hell of a nice deposit on which management has done an excellent job bringing to the present stage. Investors who want to know more about Cerro de Maimón can visit the company's website, but all of the feasibility work has been done and the numbers are right there for investors.

Nickel
Globestar announced last week that it had "executed agreements for up to 100% control of a series of exploration concessions covering 198 square kilometres along the Dominican Republic's (DR) Falcondo Nickel Laterite Belt, adjacent to GlobeStar's 100% owned C1 nickel laterite mining concession. The C1 concession is immediately adjacent to Falconbridge's Falcondo nickel laterite mine, and 8 km from the Falcondo smelter."

The company has completed 56 holes thus far with more drilling currently underway, and the results to date have been outstanding.

The story is that Falconbridge has been mining at its Falcondo processing facility in the DR for 35 years, and over 100 million tonnes of rock. At the beginning of the mine's life, grades were higher (where GMI's grades are now), but over the last few years the grade has continued to slip, such that now Falconbridge is processing material with an average nickel grade of 1.18%. Falconbridge is also now trucking material from up to 42 kilometres away.

The area of GMI's positive drill results is only 8km from the smelter complex and has come up with average nickel grades over the holes drilled to date of 1.68%, right at surface. This makes a $100 per tonne difference to the bottom line, and the material is much closer at hand.

It makes sense therefore that at some point, Falconbridge will execute an agreement with GMI to treat maybe 1 million tonnes per annum (4 million tonnes per year capacity at Falcondo) of this higher-grade material.

If the two companies were to split the extra $100 per tonne 50/50, a fairly conventional sort of arrangement in these sorts of deals, that would result in $50 million to GMI per year, with no CAPEX!

This is quite realistic, and GMI is capable of drilling about 300 holes for $1 million - enough to prove up a serious amount of nickel in short order.
As Globestar President Bill Fisher stated in a recent press release, "With early indications of good grades, and our close proximity to Falconbridge's existing smelter complex, GlobeStar's nickel-laterite project may have a competitive advantage over other greenfield nickel laterite projects where capital requirements can easily approach US$1 billion or more."

Fisher is no stranger to the Falconbridge hierarchy, which puts him and Globestar in an unusually strong position relative to most junior companies to do a good deal, and to do it in a timely manner. From 1997-2001, Fisher was Vice President, Exploration for Boliden Ltd, which at the time controlled 50% of Falconbridge.

Cash Flow
With 59 million shares outstanding, GMI probably has a $10 million - $15 million raise ahead of it, and in all likelihood will wind up with between 70-75 million shares fully diluted.

In 2008, when copper production has come on, and in all probability an agreement with Falconbridge has been inked, GMI could easily do $90 million in cash flow based on $2 copper and current nickel prices, under a fairly reasonable and likely 1-million tonnes per year scenario on the nickel.
Because the nickel side has a royalty/income trust complexion to it, a blended cash flow multiple, could run between 5-10 times.

Using C$1.20 per share in cash flow, and a multiple of 7.5, we come up with a share price of C$9.

Conclusion
There is a strong possibility that Globestar will be acquired before 2008, but just based on what has been discussed in this story - a copper mine that is essentially already financed, and good nickel tonnage that will be proved up in the near-term, GMI is a screaming buy trading at 1X cash flow. Investors who seize the day and act on this should be very well rewarded over the next 12-18 months.