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Altona Mining shows signs of support

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It has been a mixed 12 months for Altona Mining as the company's share price fluctuated between a low of 8.4 cents and a high of 45 cents. While its share price halved between January and March, it is significant that the substantial amount of capital raised during this period necessitated the issue of more than 200 million shares.

Though the earnings per share dilutive nature of this transaction could be seen as a negative, the \$70 million equity raising that was fully underwritten by Credit Suisse Australia is a sound endorsement of the company's prospects.

Providing further confidence was the fact that Perpetual emerged as a substantial shareholder in March with a stake of 5.01 per cent. The institutional investor has since increased its stake to 7 per cent.

Foster Stockbroking is very bullish about Altona, having just initiated coverage with a "buy" recommendation and a price target of 80 cents. The fact that the company has two quality assets in low sovereign risk regions, which both have significant exploration upside, appeals to the broker.

Foster Stockbroking believes the company is an emerging mid-tier 50,000 tonnes per annum copper producer. The broker expects that Altona will start production at its Outokumpo project in Finland by early 2012, and that the copper, gold, zinc operation will produce 8000 tonnes of copper per annum at a cash cost of \$US1.28 per pound. It also notes that Altona is the cheapest ASX-listed copper stock on an enterprise value to resource basis.

Based on the broker's modelling, Altona is expected to achieve a net profit of \$13.3 million in 2011-12, representing earnings per share of 2.6 cents. However, this increases substantially in 2012-13 to \$45.3 million, representing earnings per share of 8.9 cents.

But the real wild card is the company's Roseby project in Mt Isa. It is one of the largest undeveloped copper deposits in Australia with more than 900,000 tonnes of contained copper resource. Foster notes that Altona is the cheapest ASX listed copper stock on an enterprise value to resource basis.

The broker expects that contingent on a feasibility study that is currently being undertaken, Roseby could come into production by 2013-14, producing at a rate of 40,000 tonnes per annum copper and 9000 ounces per annum gold. This could potentially increase the company's copper production from approximately 8000 tonnes in 2012-13 to nearly 28,000 tonnes in 2013-14.

Though the Roseby project would be a company maker for Altona, the broker estimates that an investment of \$250 million would be required to meet its production modelling. While cash flow from the company's operations in Finland would help to fund such a project, a substantial amount of capital would need to be raised to bring Roseby into production.

While there are several challenges to overcome, medium-term speculative investors who are looking for exposure to copper may be interested in the company. There has been strong support for the stock on Wednesday, with it trading as high as 31.5 cents under high volumes after opening at 29 cents.

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