

## Resources

## US housing data strengthens copper

PUBLISHED: 21 Jul 2011 PRINT EDITION: 22 July 2011

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Copper miners could perform strongly over coming weeks. The price of the commodity is hovering close to its high of more than three months, following strong corporate earnings reports and new home construction data in the US this week.

While the US quarterly earnings season has only just kicked off, most companies have turned in better than expected results – sparking hopes the global economy may be on a stronger footing than feared.

The red metal fetched \$US4.4680 a pound at the close of Tuesday trading in New York, after US housing starts exceeded expectations with a jump of 14.6 per cent in June to an annual rate of 629,000 units .

Copper is regarded by most analysts as one of the metals most leveraged to economic activity as tight supply is likely to keep prices firm.

Mid-size and smaller copper plays offer the best exposure to the higher copper price as a greater percentage of these producers' income is derived from the base metal.

Many of these miners also have a higher cost base that makes them more leveraged to price movements of copper.

Most brokers believe Tiger Resources is a standout among the smaller-cap mining stocks, particularly after the miner said the first stage of production at its high-grade Kipoi Copper Project in the Democratic Republic of Congo is well on the way to producing 75,000 tonnes of the metal a month.

Tiger has about a 60 per cent stake in the project and Fosters Stockbroking estimates that the miner will generate in excess of \$400 million in free cash on a projected cost base of \$US4 a pound.

While the DRC is still a volatile region and is a risky place to do business, the broker noted that it has stabilised following its free elections in 2006 and has adopted a favourable mining code. This is likely to support corporate activity among miners in that region and Foster is urging investors to buy the stock with a price target of 80¢ a share.

The stock was trading flat on Thursday morning at 53¢ but has rallied around 37 per cent since hitting a seven month low of 38.5¢ on June 28.

Altona Mining is another small cap with a big upside potential. The company has a production profile in excess of 50,000 tonnes of copper a year from two projects in the safe jurisdictions of Australia and Finland.

A catalyst for the stock is the expected first production from Altona's underground Outokumpu Project in Finland early next year that is forecast to deliver 8000 tonnes of copper, according to Foster.

Its Australian Roseby project is significantly larger; it could hold around 900,000 tonnes of contained copper and has one of the biggest contained copper inventory in the country that is not held by a mining major.

“An updated feasibility study is expected to be released early next year at Roseby, highlighting a likely production profile of 35,000 to 45,000 tonnes of copper for capital expenditure [capex] of \$250 million to \$300 million,” said Foster.

“We expect numerous resource upgrades in CY11 [at Roseby] with the first of those in the coming weeks.”

The stock was holding steady on Thursday morning after it surged 9.7 per cent on Wednesday to a seven-week high of 34¢.

Foster is recommending the stock as a “buy” with a price target of 80¢ a share.

The Australian Financial Review

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