

Rare earth meets green money

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Exploration drilling at Kvanefjeld in Greenland ... new resource puts the deposit among the largest rare earth resources in the world.

ROD Mcillree is shying away from publicly divulging any of the all important numbers that ultimately tell the tale, but suffice to say from a macro perspective, the Australian-domiciled company that he heads, Greenland Minerals and Energy (ASX ticker: GGG), should be the sort of resources company to benefit in the brave new world that's apparently being mapped out by the likes of the Obama Administration in the US.

That at least is one conclusion that can be drawn if you believe the analysts/strategists at Macquarie, who this week pointed to the Obama Administration moving strongly up the technology highway as it attempts to rebuild capitalism.

The thesis is worth plotting.

"The financial crisis has delivered a truly systemic shock to global economic conditions, and asset markets," the Macquarie team said. "As we rebuild from this precipitous deterioration, the investment landscape is set to undergo an important shift.

"With investment in the financial sector running strongly in recent years (while growth in real capital stock has been poor), there was a clear imbalance in capital allocation towards financial assets and high-risk returns, when credit was cheap and economic prospects sound.

"In the post-crisis world, we expect there will eventually be a strong need for real productive capacity and a shrinking financial sector. Years of physical underinvestment and demographic challenges suggest this will be a necessary shift. It is true that the short-term outlook for private investment is poor for some quarters yet. However, massive public spending schemes are an important partial offset.

"The ramp up in public spending should also drive an overhaul in capital allocation. Infrastructure and clean energy should get a particularly strong push. This reflects a palpable ideological shift in the major economies.

"Governments are moving forward with long-term strategic shifts in the nature of economic growth. For example, the Obama Administration has mapped out a new model for capitalism in the US. Renewable energy, clean technology, health care technology and education are planned to drive economic growth in place of excessive household spending.

"An economy built on clean energy, innovation and superior infrastructure seems to be the overarching philosophy for public policy going forward in a number of key economies. Coupled with a strong underlying need for infrastructure, these two sectors, along with information technology, are potentially high-growth industries over the next 5–10 years as a result. Public-private partnerships are also set to increase across energy, infrastructure and clean technology, in the medium-term."

Cue GGG. For while there looks a way to go before the company's Kvanefjeld project in southern Greenland becomes a reality, owning a major rare earths resource would seem to make for a very good start indeed. Rare earths are a group of specialty metals with unique physical and chemical properties and which are in increasing demand from technology industries.

According to GGG, common applications include use in hybrid cars wind turbines, ipods, laptops, flat screen televisions/monitors, cell phones, rechargeable batteries, oil refining, catalytic converters, and numerous medical and military applications.

Most of the big rare earth deposits are owned by the Chinese, with China producing more than 90% of global rare earth elements (REE) output and consuming more than 60%. GGG's marketing includes a 1992 quote by Deng Xiaoping that said: "There is oil in the Middle East; there is rare earth in China."

GGG further states that China is progressively reducing export quotas and increasing export taxes, initiatives with significant implications.

“By controlling REE availability outside China, it encourages corporations to shift more of their manufacturing base to China, to help strengthen their economic growth rates and consolidate market position in many emerging consumer items,” the company said. “This is a problematic situation – REEs are essential in modern and future technologies, but are overwhelmingly controlled by one country. There is a definite need for new, long-term REE suppliers based outside China.”



Kvanefjeld base camp.

Again, cue GGG.

As per an announcement last week, Kvanefjeld is now one of the largest rare earth resources in the world with the 457 million tonnes deposit containing 4.91Mt of rare earth oxide (REO), as well as zinc (990,000t of contained zinc), uranium (120,000t contained) and sodium fluoride (3.09Mt). Moreover, 79% of the REO, zinc and uranium resources are in the indicated category.

However, the downside for GGG is the current zero-tolerance toward uranium exploration and exploitation in Greenland. This is a very big downside indeed given that while uranium only oxide makes up a few percent of Kvanefjeld's potential ore constituents by concentration, it is in the order of 20% by value.

Still, GGG is hopeful.

“Greenland is undergoing a significant transition at present, as it moves to further independence,” McIlree told *HighGrade*. “There is a genuine recognition that developing a strong minerals (and hydrocarbon) industry is key to Greenland's sustainable independence. This is recognised by Denmark as well. While there has been a zero-tolerance toward uranium exploitation, there have been many ongoing discussions at all levels of the political landscape in regard to changing this framework. This is largely due to the significance of the Kvanefjeld project, and a recognition that is without doubt, one of Greenland's most significant resources, and it is also close to existing infrastructure in southern

Greenland. We remain confident of change, but are also conscious of respecting the current regulations. We are increasing our dialogue with the new Greenland coalition government, to discuss the issues surrounding the development of what is a truly world-class resource."

Indeed the thirty-something McIlree, who has worked both in the field as a geologist and subsequently the capital markets, calls it a potential "country maker".

Unsurprisingly, aside from the uranium question there are other hurdles.

"Determining the most viable metallurgical process route is also a challenge as the orebody has unique characteristics," McIlree said. "But we have and continue to make very significant advances on this front and are confident of an economically robust outcome.

"Marketing rare earth products is one of the next steps as the company moves beyond the pre-feasibility phase. But with China continuing to tighten the reins on supplying the outside world, there will likely be numerous interested parties, particularly in Japan, South Korea, and Europe.

"Perhaps one of the major challenges we have faced from the outset is the mystique of Greenland to the investment community. Perception is a critical aspect of how the market values a company or a project, so one of our challenges is demonstrating Greenland as a great place to explore and develop mineral deposits."

Up to the start of 2009 GGG had already spent a staggering \$A40 million over the past 2-3 years. A pre-feasibility is expected to be completed in the next few months, and last month the company raised \$A6 million to add to the already healthy \$A12.5 million at the start of the June quarter.

Clearly this is a company that has plenty of believers with the beauty of a big picture story like GGG's being its attraction to both long term and shorter horizon-investors – apparent lack of numbers notwithstanding. Aside from its non-China bent, McIlree claims Kvanefjeld has plenty else in its favour.

"Kvanefjeld is multi-commodity resource, and its strength is in the sum of its parts," he said. "If the project is developed as we anticipate, revenue streams from several products will ensure an economically robust operation. This would help buffer the project against short term price suppression of REEs, as it would ultimately see a significant new supply of REEs enter the global supply chain.

"Kvanefjeld is a massive resource, most of which outcrops at surface. There are good ore grades in the near surface environment, and there is a low strip ratio. Basically it is a resource that is very well suited to bulk mining methods.

"There is potential to increase hydro-electric power capacity in southern Greenland to power large scale mining projects.

"It is also strategically located between North American and European markets. The project is extremely close to tidewater, with deep-water fjords running directly out into the north Atlantic ocean. The fjords are open all year round."

Certainly the attractions of the story to date have meant GGG hasn't needed the Chinese investment that so many other juniors have. Which dovetails perfectly in any case with Kvanefjeld being a non-China REE project.

"China holds a virtual monopoly on global REE supply ... and it has reinforced this through recent investments in potential Australian REE producers such as Arafura Resources and Lynas Corp," McIlree again reiterated. "Monopolisation of any commodity group is considered highly undesirable, so naturally any projects that can counteract this have considerably benefit to consumers outside groups that hold the monopoly. While Chinese investment can be appealing in a number of ways, particularly in the current economic climate, there is strategic value for projects of significant scale to remain outside the monopoly. At present, we have not specifically sought out Chinese investment, nor steered away from it, and most of the capital that has driven our progress to date has been raised through Europe. Greenland has strong historic and cultural ties to Europe, and Europe has a deeper understanding of Greenland than most other jurisdictions so it has been a good fit to date."

Despite being capitalised at about \$A150 million (fully diluted), McIlree does not believe the company is overvalued. Indeed, on the contrary.

"If you compare the market capitalisation of GGG to several other industry peers, then that would actually seem like a significant discount," he said. "There are numerous single commodity resource projects, of inferior scale and grade that have far higher market valuations. With clarity on political support for the project we would anticipate a significant re-rating of the company, to something more comparable to industry peers."