Xstrata forges ahead with eyes on Peru

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Xstrata boss Mick Davis warned back in December that the rise of resources nationalism – fancy talk for greater government take from boom time commodity prices - was the biggest risk facing the global miners.

Xstrata was of course one of the gang of three – BHP Billiton and Rio Tinto were its compadres - that forced the Gillard government last year to drop its original mining tax plan and replace it with a less onerous tax on iron ore and coal only.

A victory all right but still demonstrating the sort of pain that resources nationalism can inflict on the sector. Given companies can't pick up their mines and go elsewhere, Davis said the best protection miners have is making it clear that they have choices about where they could invest their dollars.

Davis said there was a second defence, one based on strong community engagement. If communities felt that an ''attack on the company is ultimately an attack on them, then they will be your best form of defence''.

The question now is whether Xstrata's dual approach to keeping host governments in check will have any impact on Ollanta Humala, the former army officer who beat Keiko Fujimori in Peru's hotly contested elections on the weekend.

Xstrata has more to lose than most should Humala deliver on his promise to the country's poor for a greater share of bumper commodity prices through higher royalties and a ''windfall tax'' on mining profits.

While expectations are that Humala will moderate his demands on the industry, we are talking about Latin America.

Xstrata is so far playing with a straight bat, confirming it would be proceeding with its $US4.2 billion Las Bambas copper project and its $US1.47 billion Antapaccay project. It also owns the Tintaya copper mine and has a 33.75 per cent share in the Antamina copper mine in which BHP is a partner.

Whether things heat up in Peru like they did in our own mining tax debate remains to be seen. What is known is that with Peru accounting for as much as one-third of the expected near-term growth in copper supplies, the uncertainty can't hurt the copper price.

NEMEX RESOURCES (ASX:NXR)

Recently floated Nemex Resources is managing to do what few junior explorers do nowadays by trading at its issue price, rather than at a heavy discount.

That it hasn't suffered the post-float blues is thanks to some building interest in its "coastal" Telimele iron ore exploration in Guinea, west Africa.

It's coastal in the sense that it is 200 kilometres from the coast, not the 600 kilometres distance from the coast of Guineas's Simandou Ranges, home to plans by Rio Tinto and others reckon to develop what they reckon is the next Pilbara.

Telimele is in a flat lying part of the country which before Nemex came along, was better known for its bauxite potential. It is not going to be a Simandou, but when you are the size of Nemex, it does not need to be.

Shares in the junior closed on Tuesday at 20 cents a share, giving it a market value of about $8 million. Being fresh from its float, it's got some $5 million with which to fund a planned drilling program at Telimele.

Sample results from the extensive outcrops of ironstone at Telimele suggest it has direct shipping potential, given it generally grades 60-63 per cent iron. While the surface expression is extensive, the ironstone is not going to be particularly thick.

But if you were to assume just two metres thickness, you would still be looking at 4 million tonnes of the stuff for every square kilometre. To date, Nemex has identified 30 sq kms of outcrop and has been busy putting covering as much of the prospective ground as it can with new licenses.

What is definitely in its favour at this stage is its location. Two government-owned railways are within 60 kilometres. Rio and all the others swarming over Simandou have to first build a 600 kilometre rail line to the coast to make their new Pilbara a reality.

It's early days for Nemex but the drilling program to come in October could well be worth watching for the lightly capitalised group.

HAWKLEY OIL AND GAS (ASX:HOG)

Hawkley Oil and Gas (ASX:HOG) continues to show up the rest of the junior ASX-listed oil and gas groups with the cashflow generation capability of its Ukraine project.

It's just done what was expected by committing to spend no more than $3 million building its own gas processing plant for its Sorochynska production licence.

Apart from saving some $300,000 a month in processing fees – giving the project a 10 month payback – the standalone plant will remove the restriction on Sorochynska's current daily production of 7.5 million cubic feet of raw gas and 200 barrels of condensate (light oil).

Daily capacity will grow to of 30 million cubic feet, with attendant condensate. That means Hawkley will be able to take greater advantage of the reserve base at Sorochynska which was recently upgraded to 46 billion cubic feet of gas and one million barrels of condensate.

In the meantime, Hawkley is planning a repeat performance to its reworking of Sorochynska with the current drilling of the Chernnetska prospect. The primary target should be tested in August.

Ahead of the decision to build the standalone gas plant, but with the expectation that it would go ahead with the project, Hawkley was the subject of a 3 month price target by stockbroker Hartleys of 66 cents a share. Yesterday it closed at 34 cents a share.

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