

Zircon producers may start calling the tune as shortages loom

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WHILE we've all been in a tizz about gold, copper, tin and rare earths, there's been a barely detected boom in the zircon market.

We have heard from a couple of reliable sources who were in Melbourne during the week for the Minsands (or mineral sands) conference that Chinese zircon buyers at the meeting were breaking out in sweats over the looming (and severe) shortages that could occur as early as 2011. And they have to import 85 per cent of their zircon needs for their ceramics manufacturing.

Well, it's really chickens coming home to roost. The mineral sands business has been a bit of a mug's game in recent years, with cost increases outstripping prices and the consumers of zircon have had a pretty good run.

Now the boot is on the other foot, and we're going to see the producers starting to call the tune a lot more. Which means that investors will need to do some quick homework on this sector.

Zircon was under \$US400 a tonne 10 years ago; now contracts are being signed at up to \$US1100/tonne (with some spot sales rumoured at \$US1300) while industry forecasts are for \$US1500 by 2015. That will almost certainly prove to be conservative.

Iluka Resources (ILU) hit a 52-week high on Friday, closing at \$8.58. In January, you could buy the stock for \$3.38. Ditto **Gunson Resources (GUN)**, -- it also hit a 52-week high on its Friday close at 23c, against just 5.6c only four months ago.

However, those companies that are still in the exploration phase have languished. **Image Resources (IMA)** closed at 43c compared to a year high of \$1.14, while the 6.8c on Friday for **Diatreme Resources (DRX)** is a long way from 13.5c last December. Any signs that either is getting a wriggle-on should prove a tonic for their prices. There's also **Matilda Zircon (MZI)**, which doesn't seem to have attracted much investor interest, and early-stage explorer Australia Minerals & Mining Group (AKA).

But on Friday, we saw what happens if you have a fresh story. The \$7 million IPO for **Sheffield Resources (SFX)** closed a week early and substantially oversubscribed. Pure Speculation alerted readers last month to this float. The company came to market with a team that had already built (and sold) a successful exploration company and which has mineral sands deposits in the North Perth Basin, near Iluka's West Australian ground. Iluka, incidentally, is now talking about rationing zircon to clients.

The improved bargaining hand is evidenced by Gunson. It has seven companies interested in partnering up to develop its Gunson deposit in WA. Managing director David Harley has laid down some tough conditions: the potential partners cannot have just an offtake agreement, they must invest in the project.

And, when they do invest, they can have a maximum of 40 per cent, not 51 per cent, so Gunson will be running the show.

It's a seller's market when it comes to zircon. It looks as if, by 2015, that market will be in deficit to the tune of 300,000 tonnes a year. Present production is 1.4 million tonnes.

The problem is that you cannot make tiles (and many other products) without zircon. Well, the Chinese might try to do it, but the tiles won't be any good. If you want to think tile demand, then think of all those new kitchens and bathrooms being installed in all those new apartment towers in China and the rest of Asia.

Here's the rub. According to Gunson's Minsands presentation, there are no -- repeat, no -- zircon projects now under construction around the world. And only two have completed their definitive feasibility studies and are near ready for development: the Senegal project owned by **Mineral Deposits (MDL)** and Gunson's Coburn.

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