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Diatreme Resources (DRX) 8c

FOR those unconvinced about aluminium, mineral sands producer Iluka Resources revealed yesterday that it produced 135,000 tonnes of valuable zircon in the March quarter, higher than internal estimates and putting the company on target to exceed its full-year target of 500,000 tonnes.

But we stand by our opinion that Iluka's valuation looks stretched (we had the stock as a sell at $13.30 on April) and seek less advanced plays.

In this vein, Diatreme's Cyclone deposit is of more than passing interest, and not just because it's down the road from Iluka's Jacinth Hyacinth deposit in the Eucla Basin. Diatreme sits on a compliant resource of 123 million tonnes, grading 2.3 per cent heavy minerals. That includes 998,000 tonnes of zircon, used in ceramics.

Diatreme is completing a prefeasibility study with China's biggest zircon user Baoti, which has agreed to help develop Cyclone (a binding heads of agreement is due in June).

Broker Intersuisse assumes Diatreme will sell half the project to the Chinese at a discount, but also an equity stake in Diatreme at a premium to current valuation. The company has just done a $7m rights issue at 8c apiece but asserts the begging bowl has been tucked away.

Intersuisse's Phillip Capital arm, which advises Diatreme, values the company at 30c on a net present value basis.

Diatreme shares haven't done us any favours since we had the stock as a **spec buy** at 8.2c in September. We maintain the call: penalise Intersuisse 50 per cent for excess zeal and there's still almost 100 per cent upside, especially if Baoti puts its yuan where its mouth is.