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## Vulcan Says Go, The Market Says Whoa!

Some people are very hard to please. On Monday 14th April, with copper trading close to an all-time high, Vulcan Resources said it was going ahead with development at its Kylylahti copper-cobalt-nickel mine in Finland on the basis of a compelling financial case presented in the project's definitive feasibility study. The result: a sharp fall in Vulcan's share price. No-one seems quite sure why the stock plunged from a morning opening at A30 cents, to a closing sale at A24.5 cents. Perhaps the market had expected more, though that's a bit hard to believe because the basic production numbers and profitability of Kylylahti had been well flagged over the past year. Perhaps there is concern that Vulcan will struggle to finalise the debt and equity package to meet Kylylahti's estimated US$170 million capital cost.

Whatever the reasoning, there's little doubt that Vulcan has its hands on an excellent "starter" project at Kylylahti, with more to come. A modest recovery in the company's share price the following day is perhaps a sign that some astute investors have taken the time to look at the numbers behind the mine. Arguably the best of those numbers is the forecast copper equivalent cash operating cost of US$1.05 a pound for a cocktail of copper, cobalt, nickel, zinc and gold. That number is less than one-third the current copper price, leaving Vulcan with annual earnings before interest, tax and depreciation of $US84 million for each of the first five years of a project that has a minimum 10-year life and which almost certainly a lot more in it as exploration steps out from the known orebodies.

However, to put that US$84 million in EBITDA into perspective, it's 163 per cent of Vulcan's current market capitalisation of A$57 million (US$53 million). In other words, Vulcan today is priced at roughly seven months EBITDA. For Vulcan chief executive Alistair Cowden the market's response to several years of hard work inside Vulcan has been a painfully sobering experience. "Yes, it feels like someone kicked me," he told Minesite. "Perhaps I deserved it. My mother certainly wanted to do it."

Black humour aside, there are a number of other messages in the market's reaction to Vulcan's Kylylahti announcement. First is the knee-jerk reaction to anything with a whiff of debt attached to it, and even though Vulcan has around A$43 million in the bank, and can place orders today for long-lead items of mining and processing equipment, it will still need a package of debt and equity to build the project. Second is that the damage done last year when the definitive feasibility study was delayed because of incomplete data hasn't completely gone away. Third is the shell-shocked nature of the Australian market, which continues to reel from the effects of the collapse of Opes Prime and other brokers. Fourth is traditional Australian indifference to any mine not in Australia's own backyard.

Cowden says he's learning to roll with the punches and praises the strong support he's getting from his battle-hardened chairman, Barry Eldridge. "He says if you've got a good project, and good people you just get on with it," Cowden says. And that's precisely what is happening, given that the fundamentals of Kylylahti do indeed look compelling. The project is based on processing 800,000 tonnes of ore a year for 10 years. That should yield 8,800 tonnes of copper in years one to five, along with 11,900 ounces of gold in concentrate, 1,900 tonnes of cobalt, 1,350 tonnes of nickel, 3,800 tonnes of zinc and another 1,700 tonnes of copper in concentrate. The total operating cost is US$45.50 per tonne of ore, which boils down to the aforementioned US$1.05 per pound of copper equivalent.

Cowden says all permits for the project are in place. The government and the local community are both supportive because the project represents a return to mining in one of Finland's resource heartlands, Outokumpu. "All going well from now, we expect to start site works in July, and the decline down to the orebody by the end of the year. This really is a robust project which will be handsomely profitably for Vulcan," Cowden adds. "After this we can move on to the Kumho nickel project, and other resources we have identified."

In a way, the stock market's reaction to Vulcan's Kylylahti announcement appears to confirm that we have entered a period of parallel universes. There is the real world of mining and profits and the surreal world of failed financial institutions and panicked investors. "I'm not aware of any concern about our completing our financing, or of proceeding with the project," Cowden says. "Financing is always tough, but we've had nothing but positive feedback from our banks. It's not as if the institutions have simply stopped lending. For good projects, like ours, life goes on."

Cowden says one factor very much in Vulcan's favour is the flight to quality evident in the market. "Look at it this way, if I'm running an institutional portfolio, and I'm looking at projects in Cameroon, the Ivory Coast, Kazakhstan and Finland, I've got to get one of those to work to earn a fee, and that's where Finland wins hands down." It's when Cowden gets around to comparing his project in Finland with other projects in less wholesome destinations, that Minesite's Man in Oz is reminded of a famous scene from the 1972 musical, "Oh! Calcutta!" in which a character asks whether he has to go to the extreme lengths of copulating in order to get himself a cup of coffee. Does Cowden feel he needs to do something similar to get the market to wake up? "Perhaps not that", he says. "But I am prepared to wear a kilt".