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'Tis the time to float and explorers ride the wave

IPO watch

Tony Featherstone

More companies are racing to list before Christmas and take advantage of a firmer sharemarket and renewed interest in initial public offerings.

Twenty-one companies, mostly explorers, have live IPOs — the highest number this year. Rising commodity prices and a rallying gold price provide an opportunity for capital raisings.

A handful of resource-related IPOs have performed well since listing in September and October.

Shares in Matrix Composites and Engineering, an oil services company, jumped from a \$1 offer price to \$1.36. Octanex, an oil explorer and mining investor, rallied from 30¢ to 40¢. Sumatra Copper & Gold's 20¢ shares rose to above 32¢.

Scandinavian Resources, spawned from small explorer Hannans Reward, hopes its IPO can stand out in an increasingly crowded market for speculative floats.

It is an unusual offer: Scandinavian Resources is looking for bulk commodities, base and precious metals in Sweden and Norway. It is the 12th largest exploration permit holder by area in Sweden.

If the \$6.5 million offer closes, Scandinavian Resources will join at least six other Australian-listed mining companies with operations in Sweden, Norway or Finland.

Local interest in Scandinavian mining grew in late 2007 after the \$354 million Northern Iron float.



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Photo: CRAIG ABRAHAM

Northern Iron was formed to acquire the Sydvaranger iron ore mine in northern Norway. Northern's \$2.15 shares briefly soared above \$4 within months of listing before falling to \$1.58.

Northern Iron's success encouraged Hannans Reward chief executive Damian Hicks to pursue exploration in Scandinavia, which is widely viewed as underexplored.

Through his father Bill Hicks, a Hannans Reward director and large shareholder, Mr Hicks met Olof

Forslund, a geophysicist and well-known Swedish mining bureaucrat.

The prospectus heavily promotes Mr Forslund's 43 years in the Swedish mining industry, his knowledge of local conditions, and networks. Mr Forslund is Scandinavian Resources' technical director.

After some limited work, Hannans Reward divested the Swedish opportunity early last year into a private company, Scandinavian Shield, to focus on

West Australian activities. Hannans Reward shareholders were offered shares in Scandinavian Shield, which later sold its assets to Scandinavian Resources.

Hannans Reward, which fended off a hostile takeover bid from Fox Resources this year, kept no shares in Scandinavian Shield.

Scandinavian Shield shares were first sold at less than 1¢ each, before another capital raising at 7.5¢ in August this year. The Scandinavian Resources offer price is 20¢.

A selling point was Sweden's underexplored mining industry. The Swedish government did most exploration until foreign ownership restrictions were relaxed in 1992, and still provides a large body of freely available geological data. Mr Forslund is a former regional manager of geological survey of Sweden's Minerals Resources Information Office, which houses all of Sweden's mineral exploration databases.

Scandinavian Resources believes Mr Forslund's knowledge of these databases will help it assemble promising exploration permits at low cost. The strategy is developing strategic land holdings that attract interest from other players.

Although based in Perth, Scandinavian Resources is in effect run from Sweden. Mr Hicks provides corporate support but Mr Forslund is the driving force.

Other risks are the project's remoteness and the harsh Scandinavian weather. The company must wait until March to start exploration due to snowfall. Investors should also review the capital structure and potential dilution. There will be 61.1 million outstanding shares and another 63 million options struck at 20¢ or 25¢.

Scandinavian Shield shareholders get another 5 million shares and 5 million options struck at 20¢ each if Scandinavian Resources exceeds a market capitalisation of \$50 million within two years after listing. The capitalisation at the offer price is \$12.2 million. The offer closes on December 4 with listing 10 days later.