



Unearthing market gems **Commodities**

News updates to trigger recovery in Chile-based metals explorer

Herencia fired up

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Snap up **Herencia Resources (HER:AIM)** at 3.1p as the 24% drop in its share price since peaking at 4p on 7 February is a buying opportunity in light of imminent project updates and a strong silver price. The first news will be drilling results in late April from Doris, a high-grade copper and silver target located 1.5 kilometres from Patricia, its flagship deposit in Chile.

The Doris drilling results should coincide with the finalisation of a new joint venture in Chile. Herencia will drill at least 6,000 metres over 30 months to earn 51% of a metals project currently owned by a high-net worth individual who, despite no mining experience, hit high-grade copper and gold in three of seven holes drilled into the ground. Herencia reckons it will start drilling the target in the fourth quarter of 2011 to get a better idea of the metals content. It

hopes to publish results before the year-end.

The current work at Doris is part of a broader 15,000-metre drilling programme which is focused on the three areas that make up its Paguanta project which also include La Rosa, a neighbouring copper target. The bulk of the drilling – around 12,000 metres – will be concentrated on the other part of Paguanta, being the Patricia zinc/lead/silver deposit currently undergoing a feasibility study.

The net present value (NPV) of Patricia in November 2010, according to an independent scoping study in 2008 and updated by Herencia, was \$90.4 million. Increasing the mine life by two years – which is possible by expanding the resource, the purpose of the current drill programme – would boost the NPV to \$139.5 million, says Herencia whose market capitalisation is currently \$61 million (£38 million).

Although zinc is now trading marginally lower (and lead slightly higher) than the prices used in Herencia's updated NPV model, silver has significantly increased in value from \$26.76 per ounce in the calculations to the current \$34.35. Silver was originally deemed a byproduct from Patricia but now equates to 35% of predicted revenue. If silver surpasses \$50 per ounce – as many market commentators believe is possible – it becomes the primary commodity within the deposit.

Managing director Michael Bohm indicates that Herencia may forward sell part of its silver production to get cash upfront to help raise the \$50 million needed to build the Patricia mine, thereby reducing the need to find money through issuing new shares or taking on debt.

Shares says: Sector weakness provides a good entry point for near-term producer Herencia. + Buy.