

Xstrata moves into iron ore with Congo-Rep project



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- * Exploration deal is first iron ore venture for Xstrata
- * Xstrata has option to buy 50 pct of Zanaga project
- * Project located in Republic of Congo

By Eric Onstad

LONDON, Nov 24 - Mining group Xstrata <XTA.L> has made its first entry into the iron ore sector by funding an exploration project in the Republic of Congo.

Anglo-Swiss Xstrata will pay at least \$50 million towards prospecting and a pre-feasibility study of the Zanaga project in the Lekoumou district of the Republic of Congo, also known as Congo Brazzaville.

"We've always said that we were interested in iron ore and this looks like a very interesting opportunity to enter into a very early stage project," spokeswoman Claire Divver said on Tuesday.

"It is at a very early stage, but the indications so far is that it may be a significant iron ore resource, it could be a world-class iron ore project."

The deal is important since it may mark a shift for acquisitive Xstrata to smaller-scale, early stage growth projects, Cazenove said.

On Oct. 15, Xstrata ditched its merger proposal to combine with rival Anglo American Plc <AAL.L> after building up the group over the years with a string of major acquisitions. [ID:nLF510655]

"While still early stage, this transaction marks a significant event for Xstrata as it enters into its much sought after commodity at a very attractive price," Cazenove said in a note.

Xstrata produces a range of minerals ranging from copper and zinc to coal and ferrochrome.

SMALL-SCALE M&A

"We also believe this agreement is indicative of how the company will move forward using small scale M&A to expand its already attractive organic growth portfolio."

The project, located about 300 km northeast of Pointe Noire, will continue to be managed by Colin Harris, formerly project director of Rio Tinto's <RIO.AX> <RIO.L> Simandou project in Guinea.

Under an agreement with the privately-held project owner, Jumelles Ltd, the spending of \$50 million by Xstrata will buy an option to acquire 50 percent plus one share interest in Jumelles.

If Xstrata decides to exercise the option following the completion of the pre-feasibility study, it must pay for the full feasibility study to gain the 50 percent interest.

The agreement includes the possibility for Xstrata to eventually buy 100 percent of the project.

Xstrata shares were unchanged at 1200 GMT, largely in line with the UK mining index <.FTNMX1770>.
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