



Resources

Stocks Down Under

🗣️ *The Middle East has oil, and China has rare earths.* 🗣️

- Deng Xiaoping (1904 – 1997), Chinese politician

— SENEX ENERGY

Taking advantage of the
Pandemic recession

— PENSANA RARE EARTHS

Facilitating a greener energy
future with NdPr

— CHESSER RESOURCES

Exploring for gold
elephants

SENEX ENERGY

Taking advantage of the Pandemic recession

Stocks Down Under rating: ★★★★★

ASX: SXY
Market cap: A\$ 475M

52-week range: A\$0.12 / A\$0.375
Share price: A\$ 0.325

Despite a March low of 13 cents, the volatile oil price helped bring back Senex's share price to 30 cents in July. And though many remain spooked by the ever-changing oil market, investors have taken notice of Senex's quick exploration and development activities over the last two years. The company now has diversified oil and gas assets in the Surat and Cooper Basins with ambitions to become a key player in Eastern Australia's gas-led recovery.

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PENSANA RARE EARTHS

Facilitating a greener energy future with NdPr

Stocks Down Under rating: ★★★★★

ASX: PM8
Market cap: A\$ 301M

52-week range: A\$0.10 / A\$1.63
Share price: A\$ 1.455

Perth-based Pensana Rare Earths is on a mission: to create a sustainable, low-cost energy future while enabling its flagship rare earths project in Angola to become one of the world's largest rare earth mines. Pensana is currently ramping up test-work to complete its Feasibility Study while developing a timetable for its mixed-rare earth concentrate. The company's share price has strengthened dramatically since the low of 10 cents in March due to an improved Mineral Resource update in the September quarter.

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Share price chart



Source: Tradingview

Another slice of Surat

Senex's share price has remained steady at 34 cents after it announced it had gained status as preferred tenderer for two new blocks in the Surat and Bowen Basins in a Queensland government plan to get more gas to market quickly. The company will use its new acreage in Surat to expand its flagship Atlas coal-seam gas (CSG) project by 50%, nearly doubling its predicted FY20 results to 18PJ/year by the first half of 2022. Atlas is only 20 km south-west of Wandoan, an important population centre in the Surat. The Surat Basin, which extends 270,000 sq. km across NSW and Queensland, is already a crowded space in terms of gas exploration, so Senex has plans for Atlas to become the first natural gas development for domestic supply.

The second new block in the Bowen Basin spans 486 km near the town of Theodore, in between the Scotia field of Santos and the Meridian field of Mitsui and the privately held CSG explorer Westside. As it is early days, Senex has plans to begin a four-year program of 2D-Seismic acquisition, geological studies and an exploration well here, which should provide further diversification to the company portfolio. The new acreages bring Senex's total exploration area to 2,300 sq. km across Queensland.

Is 2020 the beginning of a gas-led recovery?

After spending \$400m on the development at Surat, Senex's commitment to its gas development project is two-pronged: not only does it give the company a chance at leading in the gas led recovery from the COVID-19 recession, it also enables it with an opportunity to diversify and scale-up. Senex is limited to domestic only contracts, but even without the option of offshore exports, it has a sound customer base. A large majority of its sales are said to be on contract pricing (above the current spot price of oil), so the company will be watching if spot prices manage to drive future contract prices lower. In any case, Senex forecasts that Surat will be able to provide over 20 PJ of gas per annum at an all-inclusive price of \$3/GJ by 2022, leaving the company time to expand and become less reliant on oil's volatility.

While the Morrison government also remains committed to gas (with a plan to make the east coast more 'competitive and transparent' for both producers and consumers), in actuality neither an increase or decrease in domestic supply will have much of an impact on energy prices. The demand for new gas resources, including CSG, means that gas companies like Senex are set to get much more profitable now that demand longer-term gas demand is expected to grow as coal-fired power is rejected and companies look to gas to support renewables. This is an opportune time for Senex to expand, especially as the industry very deftly markets itself as the answer to both a cleaner future and a way out of this Pandemic-induced recession.

Gas, not oil, the future for Senex

Despite the last quarter proving difficult for the oil industry, Senex has managed to deliver strong growth and transform its gas expansion strategy in a relatively short amount of time, with its Surat development (including its initial Roma North site) exceeding the company's own expectations. This has underpinned better sales and EDITBA expectations. The company is less clear on the outlook for its Cooper Basin project(s), with a \$52m write-down of those assets in August and a new oil assumption cost of US\$62 (A\$87) per barrel. Here again, Senex's now very diversified portfolio of oil and gas assets has helped minimise the impact, with almost 50% of production not linked to oil by FY22.

The plan now will be the completion of drilling at Roma North in order to bring all its focus on Atlas. The company is eyeing an EDITBA of \$100-110m and free cash flow of \$70-90 in FY22 as capital expenditure decreases and those pre-existing contracts continue. While the market has both helped and hindered Senex, with the company's jump from 0.08 million barrels of oil in 2017 to its target of 3.6-4.1 million barrels, we see Senex as a solid four star success story.



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NdPr is big business

There are emerging rare earth explorers, and then there are rare earth producers with a specific plan to tackle the emerging demand for rare earth elements (REE). But as Pensana knows, not all REEs are used for the same applications and some are sought after more than others, depending on the market in question. This is especially true for REE's and their role in rapidly changing 'green' technologies, so Pensana is looking for innovative ways to provide the best RE concentrate to supply the components needed for Electric Vehicle and Offshore Wind Turbine production. But first, the company has to bring its Angolan mine online.

The Longonjo Project, 300 km east of the major Angolan coastal city of Benguela, provides what the company calls a strategic neodymium-praseodymium (NdPr) alternative to assist with what Pensana believes is an inevitable green energy future. The project has a thick blanket of high-grade NdPr mineralisation over a 1.5km strike length. On their own, the neodymium and praseodymium elements are highly valued for their magnetic and electrochemical properties. In combination, NdPr is used to create high-power magnets with increased strength and durability.

Pensana's latest Mineral Resource Estimate (MRE) is 313 million tonnes at 1.4% rare earth oxides (REO) for 4.47 Mt of total REO, including 999,000 tonnes NdPr (or 0.32% NdPr oxide), a 2.3x increase in the

mineralisation estimate from the Prefeasibility Study in November 2019. While this will support Pensana's upcoming Feasibility Study due in late October, the company has already begun producing its NdPr MREC (mixed rare earth carbonate) from recent test work in Perth.

An NdPr product good enough even for China

Pensana's belief in its NdPr MREC stems from the fact that its product is much higher in purity and value than its original PFS concentrate. Pensana's MREC product will also have a wider appeal and use in applications, which will make it more valuable to markets with high RE demand, particularly in Asia. Given that Nd and Pr are forecast to be in a deficit from 2020 onward, Pensana is banking on a sustainable program at Longonjo as well as an improved NdPr concentrate going forward. China is the biggest producer of NdPr concentrate with control of 96% of supply.

To make all this a reality, Pensana will work with industry specialists to continue its production of its NdPr MREC back in Perth. But Angola's commitment to new mining (and especially rare earth mining) will go a long way in establishing the Longonjo mine, with the country's sovereign wealth fund recently agreeing to fund it to the tune of US\$8.6m. After a change in leadership in 2018, Angola is diversifying its mining landscape. Added to this, Longonjo's proximity and access to the new Lauca hydro-electric dam (and associated train and port infrastructure) has helped to feed into the company's clean energy strategy. Pensana is confident these factors will give Longonjo an edge as markets look beyond Asia.

The biggest rare earths mine in a decade

The plan for the open-pit mine at Longonjo will involve an initial capital cost of US\$131m, with a view to produce 56,000 tonnes per annum of NdPr concentrate at just A\$1,323 per tonne for an LOM of nine years. The last major rare earth mine in the world was Lynas' Mt Weld mine in Western Australia, which propelled Lynas to a multi-billion dollar market capitalisation. Pensana believes Longonjo could be next with its sustainable and low-cost MREC. The PFS estimated that the project would generate total revenue of more than US\$1.9bn on a base case with an Internal Return Rate of 101%, allowing payback in just 13 months.

Pensana is now in a position to commence offtake discussions with the biggest customers in China, Japan and Korea, as well as the quietly emerging Electric Vehicle and battery markets in Europe. The company's vision for a clean energy future seems to have been uplifted by the market's response to US President Trump's call for more funding for rare earth mining. The concern over a strong rare earth magnet supply chain bodes well for producers like Pensana as the US opens up to the wider RE industry. If done well, Longonjo could be a precursor to further NdPr projects being realised. It's a big undertaking that we believe deserves four stars both for futurist vision and market practicality.

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Striking in Senegal's golden corridor

Chesser's flagship Diamba Sud Gold Project is located in eastern Senegal in a region called the Senegal Mali Shear Zone (SMSZ), which hugs the border between – you guessed it – Senegal and Mali. For a relatively underexplored greenstone belt, this shear zone already hosts a plethora of tier 1 gold mines, including Barrick Gold's Loulo and Goukoto gold mines and IAMGOLD's Sadiola gold mine. Diamba Sud is only 7 km west from Loulo and 12 km south-west from Goukoto. The shear zone is made up of 'splays' that allow high-grade gold deposits to form and many of those splays are working magic for juniors like Chesser. Oklo Resources' Dandoko Gold Project is just over the border in Mali.

Chesser has wasted no time identifying two target areas with high-grade gold mineralisation at Diamba Sud. In 2019 the company discovered a large hypothermal system at Area A, which showed thick, shallow and high-grade intercepts, including 6.62 grammes per tonne gold at 21m. But the company hit the jackpot in July 2020 at Area D, with a broad, high-grade result of 48m at 7 grams per tonne gold. The exciting part of Area D is not just the grade but the consistency of the intercepts over the 200m prospect. The company believes Area D is likely an offset extension of Area A, offering more room for expansion along Diamba Sud. Best of all, the trend at Area A is still open, meaning that the company doesn't know where the gold ends yet.

Senegal positive on foreign investment

Chesser has only just begun its 15,000-20,000 metre drilling campaign at Areas A and D, with assay results due in November. The program will lead with a greater focus on the consistent and near-surface discovery at Area D. There is also room for additional discoveries with initial drilling at a target called Western Splay, just south of Area D. Because of the sheer number of promising results coming out of the area, Chesser appointed former Papillon Resources managing director Mark Connolly to make sense of the company's options going forward. Connolly is chairman of neighbouring Oklo Resources, so the company can place its trust in Connolly's experience in the African gold region.

The shear zone makes for attractive exploration acreage, but it's Senegal itself that presents the most advantages for foreign miners. Senegalese President Macky Sall, himself a former geological engineer and Minister for Mines and Energy, had been looking to change Senegal's long-term prospects through mining exploration for some time before a revision to the country's mining code in 2016. The changes – which include no limitations to a project's scale and production sharing agreements, giving companies exclusive rights to mine a particular area – were designed to boost foreign investment and GDO growth.

Senegal's geopolitical situation is largely stable in contrast to some areas in West Africa that are experiencing militant activity, including north Mali. Such relative stability combined with positive mining legislation has propelled 6% per annum GDP growth since 2015.

Buckle up, because this will take a while

Chesser's quick rate of discovery has added significant value accretion to the company's share price since the discovery of Diamba Sud in 2017. A massive re-rating, on the back of the results at Area D, followed the \$6m share placement in July at 8 cents. That success has given Chesser leverage to tackle the next phase in exploration – reverse circulation drilling at Areas A and D and greenfield drilling to test the potential at Northern Arc and Western Splay.

Though Chesser is clearly happy with the remarkable start, the company is focussed on finding more high-grade discoveries at shallow depths similar to Area D in order to establish a realistic resource estimate, and that isn't expected until the March quarter of 2021. The discovery at Area D bodes well for similar results at Chesser's new drilling targets and this leaves Chesser's rapid success with a tentative three star rating while we wait patiently for the next headline.



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