STOCKS DOWN UNDER

8 OCTOBER 2020

# Resources Stocks Down Under

*"All industry, not just the mining industry can get out and give Aboriginal companies a chance."*

**- Andrew (Twiggy) Forest (b. 1962) former CEO and current Chairman of Fortescue Metals Group**

## ENERGY RESOURCES OF AUSTRALIA

Rio Tinto makes a play as uranium hopes fade

## TALGA RESOURCES

Taking the European graphite market one step at a time

## RUMBLE RESOURCES

Not quite ready to rumble yet

## ENERGY RESOURCES OF AUSTRALIA

Rio Tinto makes a play as uranium hopes fade

Stocks Down Under rating: ★ ★ ★

**ASX: ERA**
**Market cap: A$ 572M**

**52-week range: A$0.138 / A$0.200**
**Share price: A$ 0.155**

The Rio Tinto uranium subsidiary Energy Resources of Australia is set to close operations at its Ranger Uranium Mine, 260 km east of Darwin early next year. The company's share price rose slightly to 18 cents after a closure agreement was eventually finalised, but has since fallen back to 15 cents. As uranium hopes fade in the region (and for the companies involved), Energy Resources is simply committed to the full rehabilitation of the Ranger site over the next five years, and nothing more.

READ MORE

## TALGA RESOURCES

Taking the European graphite market one step at a time

Stocks Down Under rating: ★ ★ ★ ★

**ASX: TLG**
**Market cap: A$ 201M**

**52-week range: A$0.175 / A$0.950**
**Share price: A$ 0.805**

Only 10-years old, Talga is making waves in the European lithium-ion battery market with a realistic strategy to become the continent's biggest producer and developer of graphite anodes. While it's early days, Talga is earning a lot of attention for both its cleaner, low-cost strategy for extracting graphite and its plan to market its own anode products.

READ MORE

## RUMBLE RESOURCES

Not quite ready to rumble yet

Stocks Down Under rating: ★ ★ ★

**ASX: RTR**
**Market cap: A$ 94.2M**

**52-week range: A$0.045 / A$0.195**
**Share price: A$ 0.175**

The Perth-based mineral explorer Rumble Resources has a diverse portfolio of projects, going after silver, copper, nickel, zinc and vanadium. The company's share price has had a good run thanks to a recent 16m drill intersection grading 6.62 grams per tonne gold. Investors are hoping there's a new gold discovery in the Fraser Range region of Western Australia.

READ MORE

# ENERGY RESOURCES OF AUSTRALIA

## Rio Tinto makes a play as uranium hopes fade

**Stocks Down Under rating:** ★★★

**ASX: ERA**
**Market cap: A$ 572M**

**52-week range: A$0.138 / A$0.200**
**Share price: A$ 0.155**

The Rio Tinto uranium subsidiary Energy Resources of Australia is set to close operations at its Ranger Uranium Mine, 260 km east of Darwin early next year. The company's share price rose slightly to 18 cents after a closure agreement was eventually finalised, but has since fallen back to 15 cents. As uranium hopes fade in the region (and for the companies involved), Energy Resources is simply committed to the full rehabilitation of the Ranger site over the next five years, and nothing more.

### Share price chart


*Source: Tradingview*

### An end to Australia's longest running uranium mine

To understand why ERA is now in this position, we're going to have to backtrack a bit. Since the '80s, Ranger has produced over 126,000 tonnes of uranium oxide under various authorities, but it wasn't until 2012 that Energy Resources started open cut mining. Because Energy Resources operates in a sensitive area, where Ranger is within (but not part of) Kakadu National Park and on Aboriginal land, the company is obliged to end mining activities by 2021 under the Ranger Authority, part of a regulatory framework designed to regulate Ranger's mining and environmental activities in conjunction with Aboriginal land use. With that date close to hand, Energy Resources has only five years to rehabilitate the mine back to its original surroundings by 2026.

The company will continue to sell its ore stockpile over the next four years while it contemplates what comes next. Ranger has been on track with its production guidance of 1,200-1,600 tonnes despite lower milled volumes, producing 421 tonnes of uranium oxide and milling 601 tonnes in the March quarter. At the same time, the company is concentrating on backfilling pits at its Ranger 3 Deeps project with a view for completion in 2Q20.

### Closure signals an end to Energy Resources

The road to Ranger's closure hasn't been as smooth as the company would have liked, with vested interests adding a few hurdles to a closure agreement between Energy Resources, Rio Tinto and major stakeholders. The estimated cost of rehabilitation has increased from $799m to $830m because of major fill-in drilling as well as wastewater and tailing dam clean-up work. With a total cash resource of $425m in the June quarter, the extra $400m-plus funding had to come directly from Rio Tinto, which happened via the recent rights issue at 15 cents per share.

While we talk a lot about sovereign risk for Australian operators overseas, the dilemma for uranium miners at home comes not just from tough legislation (read: the Atomic Energy Act 1953) but a continuing dismissal of uranium as a social and environmental risk. Now that the company's days are limited, the possibility of another mine at Jabiluka is unlikely in the face of high costs and opposition from traditional owners, and the $120m spent at the Ranger 3 Deeps underground resource for further exploration hasn't come to all that much. Australia is the world's third's largest uranium producer with a third of the world's reserves, but red tape, higher operating costs and fears over radioactive waste feeds into a never-ending cycle of tough regulatory environments and negative opinion. And Energy Resources has copped its share of the blame: the company faced backlash for waste spill after a tailing dam leak in 2013. Unlike in-situ recovery mining, open and underground mining for uranium presents greater risks if tailings dams are proven ineffective.

### Perhaps it's not all over for uranium, yet

Currently ERA is capitalised at close to $600m. Assume that all of the $783m on the books as at June 2020 goes to the Ranger rehabilitation. What that leaves shareholders is two undeveloped resources – about 55,000 tonnes of U3O8 at Ranger Deeps and 137,000 tonnes at Jabiluka. If one puts the current uranium price on these resources and takes just 10% of that value, it translates to around A$1.2bn in shareholder value. However, one suspects that neither resource will be developed any time soon. There are just too many interests that are opposed. Currently, Rio Tinto regards its 86% of ERA primarily as a way to restore its corporate reputation. If it executes well on the Range rehabilitation, people might start to forget the infamous Juukan Gorge incident of May 2020.

Now, in 2026 the story may be different, particularly if there is a recovery in the uranium market. If uranium is going to become part of the clean energy solution, we suggest more needs to be done by the big players ahead of time to maintain uranium's image as a renewable choice. Five years can seem like a long time in commodity markets, so it remains to be seen how far the uranium market can recover while Rio Tinto and Energy Resources weigh their options. For now, ERA is a mere three stars from us.

# TALGA RESOURCES

## Taking the European graphite market one step at a time

**Stocks Down Under rating:** ★★★★

**ASX: TLG**
**Market cap: A$ 201M**

**52-week range: A$0.175 / A$0.950**
**Share price: A$ 0.805**

Only 10-years old, Talga is making waves in the European lithium-ion battery market with a realistic strategy to become the continent's biggest producer and developer of graphite anodes. While it's early days, Talga is earning a lot of attention for both its cleaner, low-cost strategy for extracting graphite and its plan to market its own anode products.

### Share price chart


*Source: Tradingview*

### Vittangi project offers far-reaching potential

Since 2012, Talga has owned three graphite projects in the Norbotton region of north Sweden, including the Jalkunen and Raitajarvi projects. Its advanced flagship project at Vittangi, which encompasses the Nunasvaara deposit, has an updated JORC graphite resource of 19.5 million tonnes at 25.6% Total Graphitic Content (TGC) for 3.1 tonnes of graphite. The company has recently identified additional exploration targets along a 75 km zone at Vittangi, so there is room to grow the resource further. The updated resource of 19.5 million tonnes makes for a 15% increase on the previous 16.5 million tonnes, all based on previous diamond drilling. The news significantly lifted Talga's share price to a high of 87 cents in late September – a far cry from its pandemic low of 23 cents in March. Based on its Pre-Feasibility study, the Vittangi project has a 22-year mine life and a Net Present Value of $1.06bn at an 8% discount. The Internal Rate of Return is a creditable 55%.

As one of world's lowest CO2 producers, Sweden is well-placed to meet Talga's strategy of low-cost, low-energy production. Foreign developers have only been allowed in since 1992, but those working in the region have the benefit of an extensive wind and hydro power network and a proximity to battery production facilities. As Talga's strategy is Eurocentric in nature, the company has made use of its ingenuity and potential with its add-on Advanced Materials testing facility in Germany and its UK development arm, Talga Technologies UK.

## Innovation the way forward for miners like Talga

Talga's ambitions as a commercial anode developer could be fast-tracked with plans to establish a proposed anode refinery at Lulea, a port city on the Gulf of Bothnia. This is where Talga will bring its Talnode-C product, a coated spherical anode material made from natural flake concentrate, to fruition. Unlike synthetic graphite, which is made from petroleum waste and has a long transport chain, taking natural graphite and processing it with hydro-electric power is faster, low cost and environmentally friendly, which feeds into Talga's long-term commitment to the industry. The ability to produce a ready-to-use product on-site should enable Talga to attract customers easily in a growing market.

With a boom in graphite anode demand expected in Europe by 2028, the point of extracting and developing graphite (and graphene) is to lessen the region's 95% import reliance on China. EVs aside, there is also an avenue for cheaper graphene production, although Talga have so far been secretive about specific graphene technology it has in the pipeline. We know that the company intends to conduct a trial run of its functionalised graphene additive, Talphene, where it will use the product to coat a 33,000-tonne container ship. Graphene doesn't typically mesh well with other products, but Talga believes it has 'functionalised' its product to bond. Graphene is the strongest material ever recorded, offering superior use as a semiconductor. If Talga can find a way to produce graphene at a sustainable cost, then there is potentially another market with a future beyond additives.

## Vertical marketing strategy already paying off

Talga is busy with Stage 1 of its strategy to enter the commercial market, by making sure its anode and graphene additive products are ready for a diverse customer base. To date, the company has 40 battery product engagements ranging from offtake to project finance.

April saw the agreement (worth £3.6m) between Talga and Bentley Motors to use graphene technology for Bentley's e-axle – a lightweight aluminium-based axle alternative for hybrid EVs. Europe's five largest auto markets overtook EV registrations in China during COVID-19, so Talga's route into the auto industry shows promise, at least in the short-term.

Long term, Talga isn't facing any major hurdles having just raised $10m from investors to begin its commercial Feasibility Study at Vittangi in early 2021. Four stars should be given for helping to bring graphite's potential to the forefront as EV and anodes gain momentum again.

# RUMBLE RESOURCES

## Not quite ready to rumble yet

**Stocks Down Under rating: ★★★**

**ASX: RTR**
**Market cap: A$ 94.2M**

**52-week range: A$0.045 / A$0.195**
**Share price: A$ 0.175**

The Perth-based mineral explorer Rumble Resources has a diverse portfolio of projects, going after silver, copper, nickel, zinc and vanadium. The company's share price has had a good run thanks to a recent 16m drill intersection grading 6.62 grams per tonne gold. Investors are hoping there's a new gold discovery in the Fraser Range region of Western Australia.

### Share price chart


*Source: Tradingview*

### Gold the saviour while nickel lags

Not surprisingly, Rumble has made use of the current popularity of gold to cement its ownership of the Western Queen gold project, 90km northwest of Mt Magnet, WA. The company's share price rose to 15 cents in August on the news that Rumble had gone ahead with the 100% acquisition from Ramelius Resources (ASX:RMS). The company expanded its territory at Western Queen in July, expanding to a 35km strike zone after acquiring two strategic tenements. Though the tenements cover the relatively unexplored Warda Warra Greenstone Belt, Rumble believes it could yield high-grade gold mineralisation similar to the original Western Queen Central mine, which historically produced 185,000 ounces at an average 8.5 grams per tonne gold per annum. The current resource is 962,000 tonnes at 3.9 grams per tonne of gold, for a total resource of 120,000 ounces.

Rumble's pipeline of growth projects extends beyond gold. The company's tenement position in the Fraser Range district, 100km east of the town of Norseman in the Goldfields-Esperance region, represents one of the largest at 3,260 sq. km. The Fraser Range Joint Venture Projects with IGO Ltd (ASX:IGO) cover some ground very similar to that which yielded the Nova Nickel Mine, only 25km to the west. The Nova discovery in 2012, today a 1.5 million tonne resource, caused a rush of explorers to the Fraser Range for a chance at the action, with little success until now. Sirius Resources (ASX:SIR) became a dream junior exploration story in its own right, making $1.8bn when it sold Nova to IGO in 2015. In the IGO/Rumble joint venture, reconnaissance drilling has indicated the potential for multiple shallow high-grade gold shoots across the project.

### Searching for a standout discovery takes time

On top of an already busy schedule, Rumble is expanding drilling campaigns at another five projects throughout Western Australia. Rumble only commits to projects with high-grade resource potential, meaning the company is fairly ruthless in moving on from the more mediocre prospects. The company's technical director, Brett Keilor, has a reputation for sourcing world class discoveries with seven major discoveries to his name, including the Tropicana and Plutonic discoveries. While Rumble's portfolio suggests it is not here to waste time, its exploration strategy is also a key risk as some of its previous prospects show. The company's stringent criteria for high-grade only prospects highlight Rumble's decision to withdraw from its Long Lake and Panache projects in Canada after less than impressive drill results. While a blow, Rumble's plentiful list of high-grade and low-cost projects continues to inspire confidence.

It's also worth keeping in mind that the company's diverse portfolio offers a sort of leverage against fluctuating commodity prices, rises (and falls) in demand and even pandemics, if Western Queen and current gold prices are anything to go by. Since Rumble has such a stake in nickel production at Fraser Range, the company will be hedging its bets on a turnaround in the nickel market following a downgrade in production forecasts in Brazil and general supply concerns, which have only worsened during the Pandemic. Even with a squeeze on surplus supplies, nickel's value in Chinese steel production and the emerging EV market is expected to support higher nickel prices by 2022, at around US$15,000 per tonne.

### 2020 becoming a big, complicated year for Rumble

Like most juniors, Rumble needs to rustle up some cash as it continues exploration efforts across multiple projects. With a net cash position of $2.9m at the end of the June quarter, Rumble recently raised $6m from a 9.3 cent placement, but that doesn't begin to cover all of its campaigns.

Other prospects in Rumble's portfolio to watch are the Lamil Project gold/copper joint venture with AIC Minerals (ASX:AIC) at Paterson, the Munarra Gully copper project to the northeast of Cue and the Braeside zinc-lead-copper-vanadium project east of Marble Bar in the Pilbara.

While Rumble shows a high degree of patience, that's a lot to take in for investors while they wait for the next big success – or the next cut. We feel Rumble deserves three stars for its bullish stance at Western Queen in what has been a rollercoaster year.

**Pitt Street Research Pty Ltd**

95 Pitt Street, Sydney, NSW 2000, Australia

Pitt Street Research Pty Ltd is founded on more than 40 years of combined experience researching companies in a range of different sectors.

You are receiving this email because you subscribed to our Stocks Down Under newsletter.



Stocks Down Under (Pitt Street Research AFSL 1265112) provides actionable investment ideas on ASX-listed stocks. The Content has been prepared for general information purposes only and is not (and cannot be construed or relied upon as) personal advice nor as an offer to buy/sell/subscribe to any of the financial products mentioned herein. No investment objectives, financial circumstances or needs of any individual have been taken into consideration in the preparation of the Content. Financial products are complex, entail risk of loss, may rise and fall, and are impacted by a range of market and economic factors, and you should always obtain professional advice to ensure trading or investing in such products is suitable for your circumstances, and ensure you obtain, read and understand any applicable offer document