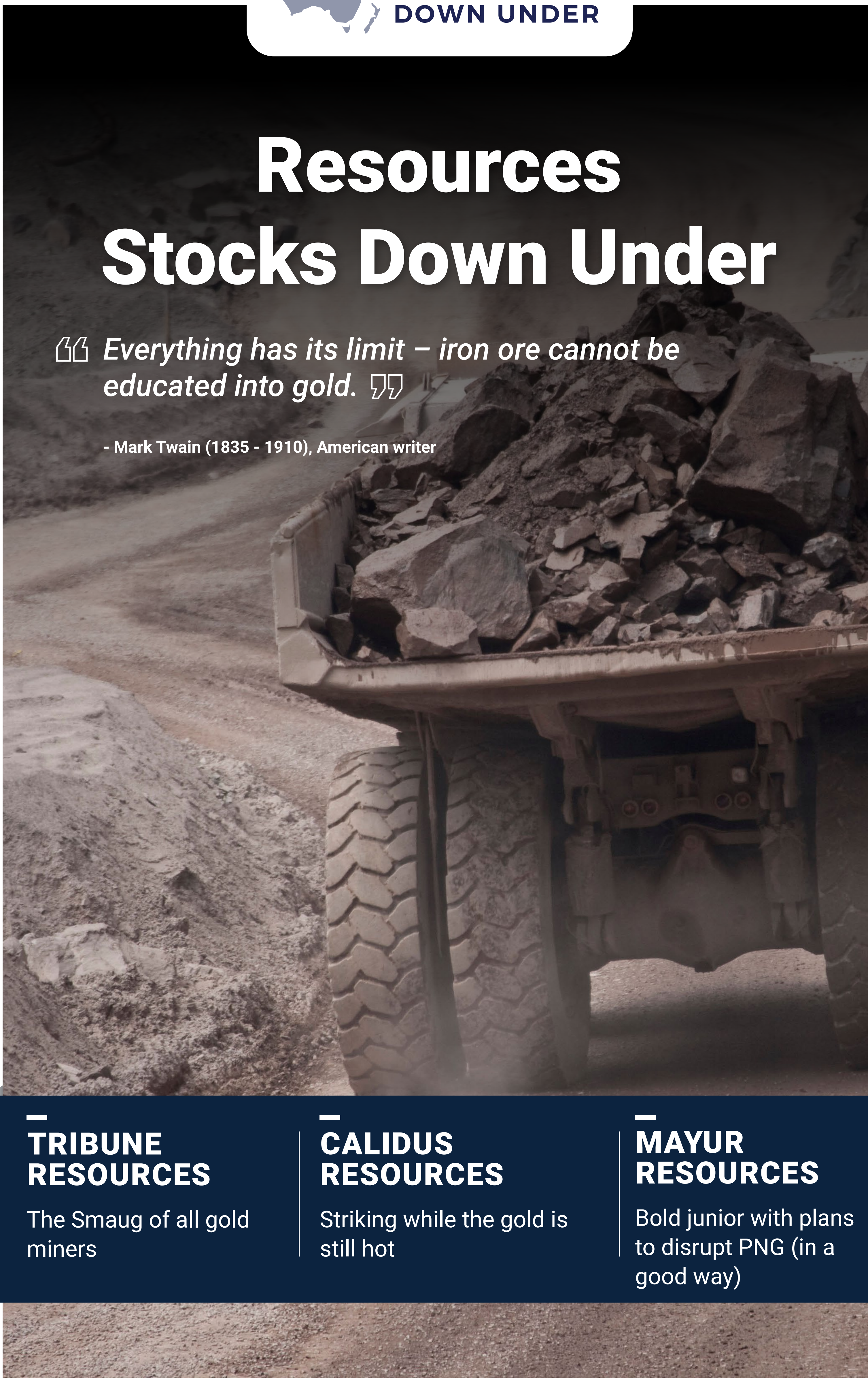
STOCKS DOWN UNDER
5 NOVEMBER 2020



Resources Stocks Down Under

> *Everything has its limit – iron ore cannot be educated into gold.*

- Mark Twain (1835 - 1910), American writer

TRIBUNE RESOURCES

The Smaug of all gold miners

CALIDUS RESOURCES

Striking while the gold is still hot

MAYUR RESOURCES

Bold junior with plans to disrupt PNG (in a good way)

TRIBUNE RESOURCES

The Smaug of all gold miners

Stocks Down Under rating: ★★★★

ASX: TBR
Market cap: A$ 375M
Dividend yield: 2.9%

52-week range: A$4.45 / A$8.87
Share price: A$ 7.00

For a successful gold explorer, Tribune Resources has been oddly quiet about its recent success at its Ghanaian gold project. This small-cap has been producing gold ore at the East Kundana Gold Project (EKJV) in WA since 2005, so its foray into Ghana and the Philippines might come as a surprise for a company which rarely makes the big news. Tribune has, by and large, had a good year on the market, holding above $7.00 and making a high of $8.20 in August.

READ MORE

CALIDUS RESOURCES

Striking while the gold is still hot

Stocks Down Under rating: ★★★★

ASX: CAI
Market cap: A$ 164M

52-week range: A$0.17 / A$0.73
Share price: A$ 0.60

As a relatively new entrant to the ASX, this gold exploration company is only a few months away from establishing the first development at its flagship Warrawoona Gold Project. Since the WA government first closed its borders in March, Calidus' share price has risen steadily in line with its expansion and activities through Warrawoona, the Otways and now at Blue Spec, showing that Calidus (which is Latin for 'hot') is living up to its name. The share price is floating in the 60-70 cent range against the March low of 17 cents.

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Market cap: A$ 79.8M

52-week range: A$0.15 / A$0.65
Share price: A$ 0.445

Mayur Resources is an industrial minerals and energy company, operating in Papua New Guinea, with a key focus on cement, lime and coal for power production. The company has also turned its attention to various gold-copper and mineral sands prospects throughout PNG, including its Orokolo Bay Industrial Sands Project in the south. Mayur's share price spiked to 63 cents on the news that its Central Lime and Cement Project had been approved for a 20-year lease. Depending on how quickly Mayur can set up, it's on its way to play its part in the nation-building of PNG – as well as helping Australia.

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Share price chart

Source: Tradingview

Busy time for such a humble explorer

Tribune delivered its Maiden Resource Estimate (MRE) for the Adiembra Prospect at its Ghanaian Japa Gold Project back in August. Japa, which is 110 km southwest from Kumasi, Ghana's second-largest city, is looking like a positive asset: Adiembra comes with a resource of 21 million tonnes at a grading of 2.7 grams per tonne gold for 1.81 million ounces. Following its initial drilling program in July, Tribune is set to start a follow-up program to expand and upgrade the estimate of the Adiembra and Japa-Dadieso trends by the end of the year. Naturally, the Ghana result helped Tribune's share price climb to $8.20 in mid-August. Not content with its work in Ghana, Tribune is also continuing its diamond drilling efforts at its Diwalwal Gold Project in the Philippines to establish a maiden Mineral Resource Estimate there.

Back home, Tribune's share of the East Kundana Joint Venture, which covers three underground mines around 25 km northwest of Kalgoorlie, is still producing strong results. East Kundana is a joint venture with Northern Star (ASX: NST), with Northern Star at 51% and Tribune and sister-company Rand Resources (ASX: RND) at 49%. In the September 2020 quarter Tribune earned 14,061 ounces of gold from its share of the ore that was processed. Though mining production was down below what Northern Star budgeted due to stope dilution and some seismic events, gold production actually increased during the quarter thanks to greater toll milling capacity.

How much gold is Tribune actually sitting on?

Despite earlier seismic events putting one of the East Kundana mines on care and maintenance (Raleigh), EKJV is still a major money-maker for Tribune with $48m in profit made in FY20, up from $34m at FY19. Ongoing near-mine exploration has continued to highlight new gold trends at the Hornet, Rubicon and Pegasus deposits. Tribune is content with its stake in EKJV now that the 5-year LOM has been extended to eight years, especially in what it could contribute to Tribune's gold holdings. The company's gold ore stockpiles at EKJV grew by 107,131 tonnes to 276,327 tonnes at a grade of 4.49 grams per tonne over the last 12 months. This might be why Tribune finally announced it would offer a 20-cent dividend in November, which is a win (and a relief) for shareholders – both Tribune and Rand have previously been taken to task for Tribune's and Rand's tight, illiquid structure as well as a lack of clarity around its holdings.

The stockpiling is clearly a point of contention for Tribune, which is now alleging that Northern Star has not met its shared agreements. Even with the current litigation, Tribune is in a strong position with $257m in Net Liquid Assets and no debt to fund its efforts in Ghana and the Philippines. Although some investors might think twice about Tribune's chances in the Philippines, given the country's challenges in the past few years, Diwalwal's potential as an underground mine doesn't offer the same problems as an open-cut mine in terms of local concerns. It's also worth noting that both Japa and Diwalwal are covered by granted mining licences.

Ghanaian and Filipino opportunities place greater value on Tribune

With its consistent production at EKJV, the strong gold price has contributed to stronger margins for Tribune during 2020 with an All-In Sustaining Cost of A$1,000 per ounce. Tribune's relatively small-scale production and avoidance of the market spotlight means that the company is one of the more undervalued gold producers in terms of cost compared to its peers. But if it can progress quickly at Japa and Diwalwal with minimal risk Tribune could quickly change its standing.

Tribune is remaining characteristically tight-lipped about its future growth and expenditures. But even with its ongoing work at Japa and at Diwalwal, Tribune's strong balance sheet should help it weather both the volatile gold price and current geopolitical risks in Ghana and the Philippines, as well as the dispute surrounding EKJV. Given its apparent strong trajectory, Tribune is a strong four-star explorer with a lot to offer - or it could be if it promoted itself more.

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Source: Tradingview

From zero to a contender in just three years

Calidus' Warrawoona Gold Project is located in the East Pilbara district of the Pilbara Goldfields, 20 km southeast from the town of Marble Bar and 150 km southeast of Port Hedland. Warrawoona's gold neighbours include the Beatons Creek mine of Novo Resources (TSX-V: NVO), De Grey Mining's (ASX: DEG) Wingina Well discovery and Kairos' (ASX: KAI) Mt York Project. The company acquired its Warrawoona Gold Project in 2017 and since that time has managed to improve the project's maiden feasibility estimate of 1.25 million ounces to just under 1.5 million ounces with a gold grade of 1.06 grams per tonne over an open 5 km.

Calidus expects the total production of 623,000 ounces for a LOM of eight years, with an average of 85,000 ounces of gold per annum. The update and a strong gold price also boosts Calidus' post-tax Net Present Value to A$286 million (8% discount rate) with an Internal Rate of Return of 77%, based on a price of A$2,500 per ounce and payback of 13 months. These figures are a far cry from Calidus' tough start as a shell company.

Calidus wants a bigger piece of the Pilbara

Despite its shaky beginning and a few years of financial losses, Calidus has managed to extend its territory by 780 sq km over the Warrawoona greenstone belt and reduce its debt and come out of the last quarter with a $7m cash balance. Calidus has so far tested two out of six identifiable trends at Warrawoona and believes it has only begun to scratch the surface of Warrawoona's potential gold riches, with the untested trends sharing a structural resemblance to the Klondyke trend to the east. Klondyke is over 5 km long and remains open along strike. 50 km away, Calidus is still drill testing at its Otways Gold Project.

The recent gold boom in the eastern Pilbara has led to a plethora of new projects but also divided ownership in the region, which offers a lot of potential for a voracious producer like Calidus. De Grey's large gold find at Mallina back in February in particular shows a reawakening of the area, and Calidus is not content to leave that action behind. The company is eagerly completing the final touches on the $19.5m acquisition of the Blue Spec mine, formerly owned by Novo Resources. Blue Spec, with its estimate of 16.3 grams per tonne at 219koz, makes for a potential bolt-on to Warrawoona's existing resource. Blue Spec has historically produced 60koz at a rich 25 grams per tonne gold.

Putting the fast-forward on construction plans

Looking long-term, Calidus expects high margins at Warrawoona with an EBITDA of $110m per annum for the 8-year LOM and a post-tax free cash flow of $447m. The company had already raised $25m in the June quarter to fund Warrawoona's early construction, although the target for the development is $120m. The company has been elated by the updated PFS, which shows a starter All-In Sustaining Cost (AISC) of just A$1,251 per ounce. The strong return and short payback are enough to push Calidus towards an earlier construction date of March 2021.

Even though Calidus is chomping at the bit to get started, it's also been careful to limit costs by delaying Warrawoona's underground pit development until year three and instead concentrate on the Klondyke open pit. From Calidus' perspective, everything depends on starting production while the gold price remains strong. And with approvals expected by end-of-year 2020 and debt financing plans being worked through, 2021 is shaping up to be a good year for Calidus. Four stars.

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Share price chart

Source: Tradingview

PNG represents a colossal opportunity

Although the islands of Papua New Guinea are no stranger to Australian mining companies, Mayur's unique range of developing projects puts it in an interesting position in a country that is rapidly developing its industrial capacity. Crucial to the company's diverse growth strategy is the Central Cement and Lime Project (CCL), approximately 25 km north from Port Moresby. Now that the project has been approved for a 20-year mining lease, Mayur sees a window to displace PNG's reliance on expensive imports of cement, clinker and quicklime with its own local supply. CCL has a JORC resource of 382 million tonnes of ore, with more than enough reserves to last for the 30-year life of the project.

Local production of cement, clinker and quicklime will support Mayur's plans to establish a coal-fired power station at Depot Creek near Kerema and an EEP (Enviro Energy Park) Project at Lae. Though it has a funny name, EEP is designed as a separate solution to prop-up PNG's unreliable power generation using both renewable and coal fuel sources. Currently, only 13% of Papua New Guineans have access to grid electricity.

Then there's the Orokolo Bay Industrial Sands Project. As a joint venture with China Titanium Resources Holdings (CTRH), Orokolo Bay is predicted to be the company's best source of cash flow with an estimated US$25m in earnings based on a long-term iron ore price of US$66 per tonne. Orokolo will produce vanadium-titanium-magnetite, construction sands and zircon concentrate. Depending on the final investment decision, Orokolo is still expected to generate US$959m in revenue and US$380m in earnings during the 15-year life of the project.

PNG government in agreement with Mayur's growth strategy

The trouble with PNG's economy right now is an excessive reliance on mining activity (29% of GDP in 2017) and an excessive reliance on imports of commodities like cement and quicklime from China and others in the region. The Central Lime and Cement Project will not only help PNG diversify its economic base and also support the growth of PNG's infrastructure, it will also feed into a growing export market for Australia and the Pacific. The copper-gold, nickel and alumina sectors, in particular, are driving demand for quicklime. As PNG is a 'developing' country, part of the cost in establishing new mines in PNG goes instead to the infrastructure which sustains those projects, including roads, transport and other infrastructure. CCL's position as the first local quarry of its type puts Mayur in a superb position to lay the groundwork before making a profit.

While Mayur might be shovel-ready, there is naturally some controversy with the company's plans for a coal-fired power plant. From Mayur's point of view, that specific project presents an opportunity to deliver reduced power costs and more reliability and energy security. And that plan is likely to go ahead given that PNG's Prime Minister James Marape shares Mayur's vision for the reduced reliance on oil and gas and structural change around importation, particularly as the country's electricity consumption is set to increase dramatically. In the future, both parties see PNG as both self-sustaining and a well-positioned exporter because of its seaborne location. Needless to say, that will be a great benefit to Australia in the long term as we look to boost our supply of industrial metals.

Nation building, but at what cost?

While this is an exciting time for Mayur, its diverse range of projects seems like a lot for one company to handle. With about $1.9m in cash as of the September quarter, the company is looking for ways to make the most out of its gold-copper assets now that its primary focus is energy production and industrial metals. The gold-copper assets Mayur does have will most likely be spun out as a separate TSX venture. Now that both CCL and Orokolo have sound valuations behind them – Orokolo has a Net Present Value of US$131m (10% discount rate) and an Internal Rate of Return of 103.7% – it makes sense for Mayur to create a bubble around its energy production and industrial metals strategy.

While Orokolo is funded through CTRH, the plan for CCL (and a possible fast-tracking of its lime kiln) depends on financial backing and offtake agreements. Given that Alcoa recently slashed its domestic lime production in Australia, we don't think those agreements should take too long. Even though that is one step in Mayur's timeline, the company says it is nowhere near finished expanding its portfolio of mineral sands projects, so be prepared for some more audacious choices. Four stars.

Pitt Street Research Pty Ltd

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