



# Resources Stocks Down Under

🗨️ *Pollution is nothing but the resources we are not harvesting. We allow them to disperse because we've been ignorant of their value.* 🗨️

- R. Buckminster Fuller (1895 - 1983), American inventor

## **PALADIN ENERGY**

Dreaming of the next uranium wave

## **ORECORP**

A rare Tanzanian success story

## **S2 RESOURCES**

All eyes out for the next Nova

# PALADIN ENERGY

Dreaming of the next uranium wave

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Stocks Down Under rating: ★★★★★

**ASX: PDN**  
**Market cap: A\$ 253M**

**52-week range: A\$0.03 / A\$0.18**  
**Share price: A\$ 0.13**

Formerly Paladin Resources, the Perth-based Paladin Energy is looking to restart the famous Langer Heinrich uranium mine in Namibia. As ASX's biggest uranium play behind Energy Resources of Australia, this new version of Paladin has re-established itself since its 2017/18 stint in Voluntary Administration and plans to meet the next uranium boom in style. Shares in Paladin are currently trading at around 12-13 cents, down from the high of 15 cents that followed the June 2020 Mine Restart Plan publication.

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# ORECORP

A rare Tanzanian success story

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Stocks Down Under rating: ★★★★★

**ASX: ORR**  
**Market cap: A\$ 173M**

**52-week range: A\$0.20 / A\$0.60**  
**Share price: A\$ 0.55**

OreCorp is both an exploration and a development company with a gold focus in Western Australia, Mauritania and Tanzania. Though the company's work in the Eastern Goldfields is ongoing, the Nyanzaga Gold Project in Tanzania has been the highlight of 2020. OreCorp has braved Tanzania's stringent mining legislation to produce a promising resource estimate, bringing the project one step closer to development. We believe a healthy gold price bodes well for both Nyanzaga and its developer.

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# S2 RESOURCES

All eyes out for the next Nova

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Stocks Down Under rating: ★★★★★

**ASX: S2R**  
**Market cap: A\$ 83.4M**

**52-week range: A\$0.066 / A\$0.315**  
**Share price: A\$ 0.255**

Eight years ago a company called Sirius Resources created a whole new nickel province in the Fraser Range, a region about 160 km northeast of Norseman in the southern part of Western Australia. Sirius' discovery of the Nova and Bollinger nickel deposits there created billions of dollars in shareholder value for IGO Ltd. S2 Resources, which picked up where IGO left off, confidently believes it can find the next Nova. With nickel doing well since March, further exploration success by S2 could quickly translate into a more generous market capitalisation for this well-placed explorer.

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## Share price chart



Source: Tradingview

## Paladin ready at the gate

The updated Pre-Feasibility Study estimates for Paladin's mothballed Langer Heinrich mine show a total cost of only US\$81m (A\$117m) to get the project running, with US\$34m (A\$49m) needed for pre-operations (workforce) and US\$47m (A\$68m) to be used for 'discretionary capital', which includes improving production capabilities by 10%.

Langer Heinrich was discovered way back in 1973 and was passed around by companies including South Africa's Gencor and Australia's Acclaim Uranium, though it was put on hold twice due to a falling uranium price before Paladin acquired it in 2002. The new mine plan encompasses three phases: one year for ramp-up, seven years for mining and nine years for stockpiling. The company is targeting a production peak of 5.9 million pounds per annum for those seven years.

Paladin has worked hard to escape Administration and now finds itself free of various problems. One is the Kayelekera mine in Malawi, once Paladin's No. 2 mine. Kayelekera was put on care and maintenance as far back as 2014. Now that Kayelekera has been bought by Lotus Resources (ASX: LOT) for A\$5m, Paladin can skip the expense (and responsibility) of rehabilitating Kayelekera and get on with Langer's 'Restart Plan'.



## **What a Paladin comeback means for uranium markets (and vice versa)**

We've spoken about the oft-mentioned demand rebound for uranium coming, it is believed, in 2023-24 and ex-Paladin chairman John Borshoff's pronouncements about it (see Stocks Down Under's Resource Edition on 29 October 2020).

Langer Heinrich is not the only mine that wants to harness that rebound – next door, the Husab and Rossing mines are also in line for restarts after suspension under the aegis of CNUC (China National Uranium Company), which bought Rossing from Rio Tinto and Namibia's state-owned Epangelo and Hong Kong's Taurus Minerals, which own Husab. Langer is arguably the most well-known and best-positioned to make a comeback thanks to its existing infrastructure and 10-year track record, but given the death spiral of nuclear power and the decline in uranium miner numbers, Paladin faces a very different landscape in which to re-emerge before 2023.

While new CEO Ian Purdy is confident a surge in demand will make production worthwhile, the US\$40-60 per pound price incentive is still stubbornly far off in the view of the naysayers. However, it's worth keeping in mind that Paladin also has a vanadium resource of 38.8 million pounds, which it plans to sell as a by-product.

Also working in Paladin's favour is the fact that uranium mining currently contributes 25% of Namibia's GDP, a number that reflects the country's strong support for the commodity since Independence in 1990. The Rossing Uranium Mine, which began production in 1976 with South African and Iranian backing, is Namibia's longest running mine. The allure of places like mining-friendly Namibia, which is the highest ranked mining jurisdiction in Africa according to the Fraser Institute, is in many ways a saving grace for companies like Paladin. And now that 285 nuclear reactors are forecast to be built by 2040, Namibia, Niger and South Africa seem like even safer options given that Australia is bearish on a uranium comeback.

Paladin's position also expresses the potential need for further merging and consolidation of uranium miners, particularly if utility providers can't increase their contract coverage to meet supply deficits. Understandably, the 'new' version Langer mine is a 75/25 joint venture between Paladin and the CNNC (China National Nuclear Corporation), a subsidiary of CNUC.

## **How secure is Paladin 2.0?**

In addition to CNNC's off-take contribution, Paladin feels it is competitively positioned with a cash runway of US\$32.4m in reserve and a lower than expected capital expenditure forecast of US\$9.5m. With a view to being production ready as early as mid-2021, the ability to secure first term contracts is crucial. The company expects 58% of sales to come from utilities with a focus on North American demand. Paladin is banking on a revival in contracts now that the surplus in uranium stores during the boom is starting to diminish (with 35 million pounds removed from the market in recent years) and power generators spruik uranium as a clean source of energy.

Langer Heinrich closed in 2018 due to the poor uranium price. By coming back strongly before uranium even makes its comeback, Paladin 2.0 is offering shareholders the chance to ride uranium's recovery wave. While it's not untrue that Paladin's historically excellent production combined with Namibia's uranium-friendly mindset gives it a better starting position, it's also true that few can forget how easy it is for uranium to fall out of favour. Which means that this stock may best be suited for the diehard uranium supporters prepared to wait two of three years for the really big money to emerge. If you're one of those, we believe this is a four star opportunity.



# ORECORP

A rare Tanzanian success story

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## Share price chart



Source: Tradingview

## Slow start of the gate but catching up fast

OreCorp is not afraid of the big projects: it currently operates a range of projects throughout Western Australia, Tanzania and Mauritania. Its three project areas in Western Australia – Yarri, Yundamindra and Ponton – can be found roughly 60 km from Leonora, but it's the Hobbes Gold Project in Yarri that is getting exploration attention. Though the recent \$13.6m capital raise will go to both Hobbes and Nyanzaga, OreCorp is well-versed in the Eastern Goldfields and has been responsible for some major discoveries in the past, so the company is looking to build its land position further along the Keith-Kilkenny and Laverton belts. Hobbes will undergo reverse circulation drilling in late 2020/early 2021.

The WA exploration helped OreCorp to hedge its bets, but Nyanzaga is still the potential 'company maker'. This project, 60 km from the city of Mwanza, which sits on Lake Victoria, hosts a massive resource of 23.7 million tonnes at 4.0 grams per tonne gold for 3.07 million ounces, which the company believes makes Nyanzaga significantly undervalued in relation to its peers even as an emerging producer. Nyanzaga's Pre-Feasibility Study forecasts an average production range of 213,000 ounces per annum over a 12-year mine life. The next step in the process is the approval of a Special Mining License (SML) from the Ministry of Minerals Technical Committee (MMTC), making the Tanzanian government a shareholder. The team is currently in the middle of raising \$26.7m to continue its progress at both Hobbes and Nyanzaga.

## **Sticking with Tanzania for the long term**

OreCorp picked up Nyanzaga back in 2015 but has had to continually assess its position in Tanzania since that country made substantive changes to its Mining Act in 2017. We've covered Tanzania's mining policy changes here at Stocks Down Under before, including the compulsory 16% government ownership clause for mining companies. While some changes are seen as restrictive, it was an easy choice for Tanzania's government: the country's natural resources (including a flourishing graphite, gold and copper resource scene) are helping drive its GDP forward by 6-7% per year. President John Magufuli has proven controversial in the past for his outlook on what miners can and can't do, but companies have an advantage in Tanzania as a safe and expanding mining jurisdiction. Now that Magufuli has won re-election, that approach is unlikely to diminish. And for OreCorp things are now going its way - Nyanzaga was one of only two major investments recently given the greenlight to proceed to the mineral extraction stage (the other being the Ngualla Rare Earth Project of Peak Resources, ASX:PEK).

Though OreCorp has endured a slow start (not helped by the added 'bonus' of COVID-19 delaying the Definitive Feasibility Study), the company's share price has more than doubled since March now that it is fully invested in Nyanzaga's potential after buying out previous joint venture partner, Barrick Gold. Once the Special Mining License is secured, OreCorp will pay \$8.05m to Barrick to conclude the acquisition. Nyanzaga's potential estimate has been improved with the discovery of the Killmani gold deposit, just 450 metres away, which has its own resource of 5.64 million tonnes at 1.21 grams per tonne gold for 22 thousand ounces and will be incorporated into the DFS. OreCorp hopes Killmani is the first of 12 deposits with similar geophysical features to Nyanzaga.

## **OreCorp could pave the way for Tanzanian hopefuls**

OreCorp has completed the September quarter with \$25m in cash to continue with its work in Tanzania and WA. Now that the company has concluded its ownership of Nyanzaga, Definitive Feasibility Study (DFS) work has begun to update the PFS (which has basically been in place since 2017). OreCorp's original Nyanzaga All-In Sustaining Cost estimate was a very economical US\$838 per ounce.

It was originally Barrick, through its Acacia Mining unit, which discovered Nyanzaga, but it is OreCorp's plan for the project that will now enable it to become the first large-scale gold mine under Magufuli and the new Mining Act.

The company will continue with its patient strategy of developing separate sections of orebody before committing to a full underground development. Nyanzaga's progression has taken a long time, but now that the hard slog for Nyanzaga's recognition from Tanzania's government appears to be over, investors might take more notice of its developer going forward. We give OreCorp four stars.

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All eyes out for the next Nova

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Source: Tradingview

S2 Resources is the five year old spin-off company which resulted from the 2015 merger of Independence Group and Sirius Resources. Independence Group, which is now just IGO Ltd (ASX: IGO), only wanted the Nova and Bollinger nickel deposits which Sirius Resources had discovered in 2012 and 2013 respectively. Everything else was packaged into S2 Resources and put back on the ASX, with Mark Bennett, the geologist who had previously helmed Sirius Resources, in charge of the new company. That gave investors another chance at a plethora of drill-ready but underexplored projects. One of those projects now covers 242 sq. km of nickel prospective ground in the Fraser Range, while another is a potentially lucrative gold-nickel project in Finland.

S2 used the downtime during COVID-19 to supplement its WA exploration portfolio, with three new prospects pegged at Jillawarra, West Murchison and Three Springs, but its continuing focus is all Fraser Range. In August, S2 confirmed the presence of a strong, large electromagnetic conductor (EM) which the company believes could indicate nickel-sulphide mineralisation. The target is well-defined for next-phase drilling, but S2 is still waiting on the relevant approvals before the rigs can get working.

## **Facing stiff competition to find the next Nova**

In 2012, the original Sirius team (including Bennett) were at the eleventh hour of exploration when they found Nova. They were a 'nothing company', but Nova brought the company's share price from a measly 5 cents to \$4.85 by the time IGO and Sirius got together, at which point Sirius was worth \$1.8bn. Part of Sirius' discovery was luck: the Nova deposit was unique at the time in that its EM feature (also known as the 'Eye') had not been seen in Australia. Unlike then, S2 is going into the current Fraser Range project with over a decade's new knowledge of the geology of the Fraser Range and the kind of EM surveys needed for the nickel sulphide mineralisation it is in quest of. Now that S2 has discovered a second 'Eye' in the Fraser Range, the team is under a lot of pressure to confirm it as the next 'company-maker' using the same technology.

Although seemingly everyone involved with Nova-Bollinger takes some credit for its discovery, S2's Executive Chairman, the aforementioned Mark Bennett, oversaw Sirius throughout its timeline and has a pretty good prospecting track-record of his own. This is the man, you'll recall, whose team discovered the Thunderbox Gold Mine and the Waterloo Nickel Mine for Lionore (two assets that are now part of Saracen, ASX: SAR) before he took on the Sirius gig.

With the promise coming out of Fraser Range and Bennett & Co's almost mystical talent for exploration, the hurdle for S2 now is competing in an overcrowded and illiquid group of companies at Fraser Range that also includes Legend Mining (ASX: LEG) and Galileo Mining (ASX: GAL). And despite its starting position, S2 appears to be lagging behind those companies in terms of development. For example, Legend Mining is drawing comparisons between its Rockford Project and Nova and is significantly advancing its operations there.

## **We know why we're all here**

If you know the old Cole Porter song 'Let's Do It', you will have heard of the area where S2 reckons 684 sq. km of Finland can deliver for shareholders: When Porter confidently tells us that 'up in Lapland little Laps do it' he's referring to the Sami people that live in the northernmost region of Finland. Presumably they 'do it' to stay warm, since this is Arctic Circle country, but the Central Lapland Greenstone Belt can more than make up for that, having already yielded tier 1 mines like the Kittilä gold mine of Agnico Eagle (TSX: AEM) and the Kevitsa copper-nickel mine of Sweden's Boliden (STO: BOL).

S2 thinks its Aarnivalkea gold and nickel project is just as substantial. We like the project name – in Finnish mythology an 'aarnivalkea' is a 'will o' the wisp' that burns over hidden treasure.

But to return to the main game for S2, although this company has an exciting schedule planned for its six main projects, including Aarnivalkea, it's fair to say investors are on this ride for the promise at Fraser Range. Bennett is very clear that his aim is to replicate the success of Nova. The EM data he and his team have obtained looks promising and ahead of the attentions of Dr. Drill, this one is four stars, in our view.



# Pitt Street Research Pty Ltd

95 Pitt Street, Sydney, NSW 2000, Australia

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