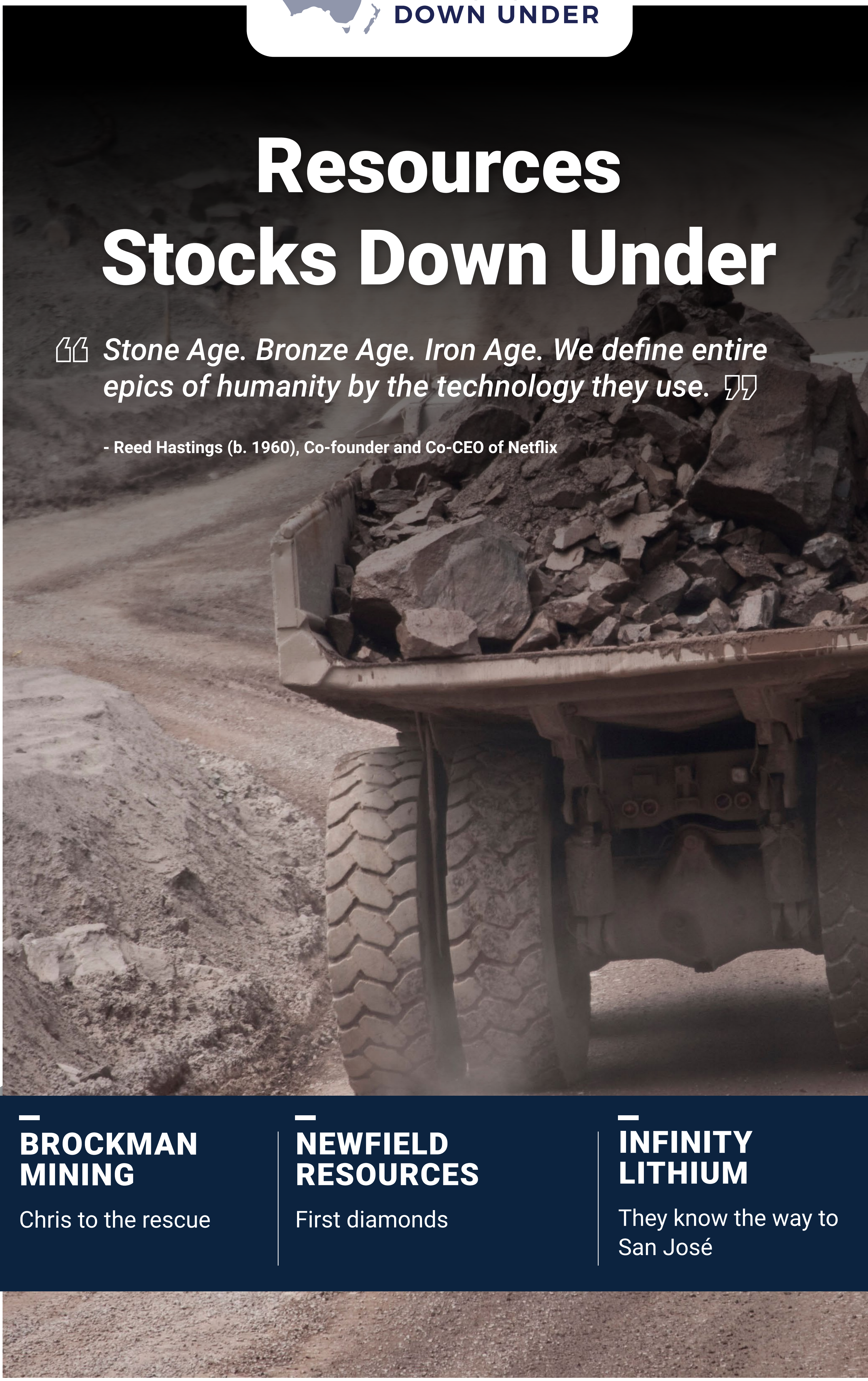
STOCKS DOWN UNDER

24 DECEMBER 2020



Resources Stocks Down Under

"Stone Age. Bronze Age. Iron Age. We define entire epics of humanity by the technology they use."

- Reed Hastings (b. 1960), Co-founder and Co-CEO of Netflix

BROCKMAN MINING

Chris to the rescue

NEWFIELD RESOURCES

First diamonds

INFINITY LITHIUM

They know the way to San José

BROCKMAN MINING

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Stocks Down Under rating: ★★★★

ASX: BCK
Market cap: A$ 464M

52-week range: A$0.014 / A$0.06
Share price: A$ 0.06

It's been a long time coming. Brockman Mining has been working on moving its Marillana Iron Ore Project forward since 2012. A deal in 2018 that joint-ventured the project with Mineral Resources (ASX: MIN) has the potential to unlock a hitherto 'stranded' project, particularly with iron ore prices running hot right now.

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Share price chart

Source: Tradingview

Western Australia's Pilbara, where a lot of Australia's iron ore riches are located, is a big place. At just over 500,000 sq km of mostly desert, this part of WA's north is more than twice the size of the state of Victoria. That's why, in investor circles, when the talk comes around to iron ore mines in the Pilbara, inevitably it is about railways and railway access. Rio Tinto has its Hamersley and Robe River Railways. BHP has its Newman and Goldsworthy railways. And in recent years FMG and Hancock Prospecting built the Fortescue and Roy Hill railways to get their shareholders into the game. If you don't have rail access, you don't have a mine. A lesser issue is capacity at the relevant bulk export port, which is usually Port Hedland, home to the world's largest such operation.

Brother, can you spare some rail capacity?

Rail has been part of the problem for Brockman's Marillana Iron Ore Project. Its predecessor, Brockman Resources, which went by the ticker code BRM, worked on this gigantic hematite deposit from 2007 until 2012 when it was merged with Wah Nam International, a Hong Kong investment company. Wah Nam relisted the company as Brockman Mining and kept plugging away at Marillana. But in the meantime the tide went out for iron ore players and Marillana became stranded on the beach.

At first glance Marillana doesn't look all that stranded. If you cast your eye over a map of the Pilbara iron ore industry, look first for the town of Newman, about 450 km south of Port Hedland. From there go 90 km northwest on BHP's Mt Newman Railway and you'll find Yandi, a mine the Big Australian commissioned in 1991. Then edge your eye a little further way up the map to the Fortescue Railway and you'll find Cloudbreak, FMG's original mine from 2008. Marillana sits between these two mines, with BHP's railway traversing the Marillana lease. The trouble is access: BHP or FMG would have to let Marillana ore onto its wagons. In order not to have that issue Hancock Prospecting insisted on building its own line to Port Hedland for Roy Hill ahead of that mine's 2015 start-up.

NPV in the billions

If a rail solution can be found for Marillana, Brockman's project has a lot of upside. The core resource is 1.5 billion tonnes grading 42% Fe. A future mine would beneficiate Marillana ore up to a final product grading 60.5% - 61.5% Fe. Brockman Resources' 2010 Definitive Feasibility Study suggested a future mine producing 17 million dry tonnes a year of this kind of beneficiated product over a 25-year mine life would have an NPV of A$2.3-2.6bn post tax, on a 10% discount rate. The trouble, of course, was the A$1.3-1.9bn in pre-production mine and rail capital expenditure. The weak iron ore prices from 2011 put paid to any development plans that would run off the back of this DFS, but iron ore prices bottomed in 2016 and have since been in recovery mode. That opens up another chance for Brockman, particularly given the ambitions of its new partner Mineral Resources, which farmed in to Marillana in July 2018 and is earning 50%.

Basically, Mineral Resources is the rail solution. We wrote about Mineral Resources in Stocks Down Under on 10 September 2020. This innovative company is a mining services operator, but with a growing suite of its own long-life mining operations. It operates the Iron Valley iron ore mine close to Yandi, for example. The strategy has propelled Mineral Resources into its current Top 200 status on ASX, making founder Chris Ellison a billionaire in the process and a tycoon mentioned in the same breath as Andrew Forrest.

One of the Next Big Things for Mineral Resources is its Pilbara Infrastructure Project, where it hopes to build a light weight rail-based transport system for moving iron ore out of the Pilbara and couple it with its own facilities for getting the ore on to bulk carriers. It'll cost about a billion dollars but in the process unlock value not just from Marillana but from other potential users of the system.

First stop … South West Creek

The plans are still open-ended, but once Mineral Resources has enough capacity, it can work with Brockman to turn Marillana into a 20 million tonne a year option and potentially expand this to 30 million tonnes. At the moment Mineral Resources is talking to all the relevant stakeholders about getting port capacity at the existing Utah Point berth and the proposed South West Creek berths in Port Hedland. WA government approval for South West Creek may come soon, so long as the government thinks it's getting a good deal on a general upgrade of the Port in the process. If South West Creek starts to move forward then the rails and Marillana and its potential billions are next.

Brockman stock has enjoyed a strong rally in recent weeks based on the breathtaking iron ore price moves. We think there's more where that came from if South West Creek looks like it's happening. With Brockman stock still undervaluing a reasonable share of 50% of Marillana, we rate this one as a four star opportunity.

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Share price chart

Source: Tradingview

Okay, we admit it…the idea of a company whose flagship project involves diamonds in the West African nation of Sierra Leone might sound a bit risky to the uninitiated. Sierra Leone is, after all, a country that went through a Civil War from 1991 to 2002 where alluvial diamonds played a role in fuelling the conflict. And that war in turn was the backdrop to the 2006 thriller Blood Diamond, starring Leonardo DiCaprio.

Peace has broken out in Sierra Leone

2002 was, however, a long time ago. These days power transitions peacefully through the ballot box in Sierra Leone and the government’s authority extends to the whole country, making it secure enough to allow relatively expensive hard rock diamond mining projects, like Tongo, to proceed. The current President, Julius Maada Bio, won the 2018 Presidential election with 51.8% of the vote in a free and fair election.

Tongo is located in Sierra Leone’s Eastern Province, 50 km south of a town called Yengema and 325 km east of the Sierra Leone capital of Freetown, down on the coast. Newfield has its 134 sq km of kimberlite-rich ground in the core of the Sierra Leone diamond industry, which was first developed in the 1930s. Before the Newfield/Stellar merger, Stellar had outlined 4.5 million carats at Tongo, which was the basis of a mine plan featuring a 21-year life of mine and about US$1.2bn in cumulative diamond sales. There was a 50 tonnes per hour processing plant and a 5 tonnes bulk sample plant on site, and enough work had been done so that Newfield was able to move straight into the project's Front-End Engineering Design (FEED) phase.

7.4 million carats with more to come

Tongo will be an underground diamond mine with two declines to access four kimberlites called Kundu, Lando, Tongo Dyke-1 and Pandebu. In November 2018 Newfield established a JORC 2012 resource estimate over these four kimberlites of 7.4 million carats. This estimate only went down to 230 metres with the exception of Tongo Dyke-1, which went to 400 metres. And the estimate only covers four out of the 11 known kimberlites on the Tongo properties. So there's plenty more diamonds where the first 7.4 million carats came from. Importantly, the diamonds in the four-kimberlite estimate are high value, with the gems estimated to be worth between US$182 and US$194 a carat on average.

Newfield intends to market the diamonds in the traditional diamond hub of Antwerp via tender or auction and the diamonds will have 'Kimberley Process' certification. If you saw Blood Diamond you'll recall the film closed with a meeting where the statespersons were establishing a process for keeping conflict diamonds out of the market. That meeting happened in Kimberley in South Africa and the resulting Process has been in place since 2003.

COVID hasn't stopped this party

Tongo's FEED study outcomes were published on ASX in May 2019 and suggested an initial eight year life over a 1.1 million carat reserve. Newfield made its Final Investment Decision in July 2019 and not long afterwards took the decision to increase the processing plant capacity to 100 tonnes per hour when it became clear that the decline work could get to the Tongo Dyke-1 faster than expected.

COVID-19 slowed things down somewhat for Newfield because by April 2020 there were curfews and in-country travel restrictions designed to slow the spread of the virus. This was, after all, a country that had experienced a devastating Ebola outbreak in 2014 and 2015 and was therefore more vigilant than many when it came to infectious diseases. The restrictions meant that development work continued at Tongo, but at a slower than expected rate. That said, the underground decline development managed to reach the Kundu kimberlite earlier this months. Newfield announced its first diamonds from Kundu on 23 December.

High value diamonds

An important reason to like Newfield with Tongo is the colour of the diamonds. Diamonds are graded on the so-called "four Cs", which are colour, cut, clarity and carat. Of these characteristics, colour is the most interesting, because the less colour, the better. The Gemological Institute of America's scale rates colour by a letter, from 'D' all the way to 'Z'. Diamonds that are D to G are colourless or near colourless. That's what most of the diamonds that have been bulk-sampled at Tongo to date have shown. Consequently, as diamond miners come back into favour with investors, we believe Newfield is one of the companies that will get an early look-in.

2021 is likely to be a good year for Newfield. The company should be able to report a resource expansion for Tongo. The Lando kimberlite will be accessible by 2021 and diamond production is likely to grow quarter-by-quarter. And rough diamond prices have been recovering after a COVID-19 induced drop that lasted until about April. Ahead of a good year for Tongo, we rate this stock four stars.

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At Stocks Down Under we're very bullish on lithium. We believe the world is going to need as much as five times more lithium at the end of the decade compared to today, primarily because of the rise of the Electric Vehicle. One of the things we learned this year about lithium is the importance of where the metal comes from. Makers of Electric Vehicles are cognisant of the need to be able to certify that their lithium was sourced ethically. And they also want the shortest possible supply chain between the mine and the 'gigafactory' where the batteries are made.

Great location, great partner

The location issue means that the best lithium projects today are those located within North America and Europe. We showed on 30 January 2020 that Piedmont Lithium (ASX: PLL) has a strong location advantage with its lithium project near Charlotte, NC. And in this article we argue that Infinity Lithium has similar geographic advantages. Think of Infinity Lithium as being like Piedmont Lithium, only for Europe.

The San José Lithium Project, of which Infinity Lithium owns 75%, is located near Cáceres in Spain's southwestern Extremadura region, up close to the Portuguese border. Mérida, the capital of Extremadura, is about 75 km to the north. This relatively rural and lower-income part of Spain has historically been an important tin producer and where there's tin there's often lithium. It turned out that San José covered the second largest hard rock lithium resource in Europe.

In 2015 the government of the Extremadura Autonomous Community made San José available in a tender process. That tender was won by Valoriza Mineria, the mining unit of the Spanish engineering company Sacyr, which brought in Infinity Lithium as a farm-in partner in a deal that was announced in June 2016. Infinity increased its interest from 50% to 75% in 2019. Sacyr, which now retains 25%, isn't ACS or Ferrovial, but it is a big player in Spain and therefore an important partner to have. Sacyr is publicly traded on the Bolsa de Madrid (BME: SCYR) where it is currently capitalised at about €1.3bn.

A simple flowsheet

At the time the San José project got started, Infinity was called Plymouth Minerals, but, let's face it, Infinity Lithium, which is what the name was changed to in 2018, sounds a whole lot sexier, don't you think? If it gets off the ground, San José will create a lot of shareholder value. Not Infinity value, but in the billions. An August 2019 Pre-feasibility Study modelled a 30-year project life, with the ore only needing to be mined for 19 years of that 30 years. The project would produce around 15,000 tonnes of lithium hydroxide annually in the first ten years. Pre-production capital expenditure of US$268m yielded a pre-tax valuation of US$860m at a 10% discount rate, which translated to A$1.3bn.

The current JORC 2012 resource at San José is 111.3 million tonnes grading 0.61% lithium oxide. Interestingly, the lithium isn't contained in spodumene but in mica, which makes the flowsheet a heck of a lot simpler because the roasting at low temperature is followed by environmentally-friendly water leaching. What Infinity Lithium is proposing is an integrated mine and processing plant at Cáceres that will take lithium sulphate after the leaching process and produce the high-value lithium hydroxide battery makers are needing more of. This project will serve the needs of gigafactories in Europe which are now showing up all over the Continent.

Strong public policy support

One reason we're confident San José can get off the ground is the level of public policy support for the Electric Vehicle, and lithium, within the EU. The EU included lithium on its list of Critical Raw Materials in September 2020. Three years ago the EU formed the European Battery Alliance (EBA) as a community of various players in the battery space to promote the transition to Electric Vehicles in Europe. This alliance and various associated initiatives have attracted public funding. In June 2020 Infinity was able to announce that it was being funded by an EBA platform called EIT InnoEnergy. It wasn't much – a mere €800,000 for Phase 1 of a pilot plant – but it adds to the credibility of the San José project that will be needed if it is to gain project finance. One of the issues European companies involved in Electric Vehicles will have is sourcing lithium hydroxide, because at the moment the vast majority of it comes from China. They will clearly like having a supplier within the EU where the supply chains are short and the manufacturing is best practice.

There's still a way to go before Infinity can go to Infinity and beyond. Some further metallurgical test work to beef up the flow sheet is now underway, as well as pilot plant work, in two phases. The company has to complete the DFS for San José and gain full permitting. And offtake agreements have to be secured.

We think the Infinity share price is more than compensating for these hurdles. With lithium now stabilising and getting ready for a recovery in 2021, this well-placed integrated lithium play is four stars in our book.

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