



# Resources

## Stocks Down Under

📖 *Making love instead of war is likely to lead to an even bigger population, which is likely to lead to wars.* 🗨️

- Mokokoma Mokhonoana (b. 1985), Philosopher

### **NORTHERN MINERALS**

Beating China at its own  
game

### **KINGSGATE CONSOLIDATED**

A new hope

### **MYANMAR METALS**

What a difference a day  
makes

# NORTHERN MINERALS

Beating China at its own game

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Stocks Down Under rating: ★★

**ASX: NTU**  
**Market cap: A\$ 226M**

**52-week range: A\$0.017 / A\$0.07**  
**Share price: A\$ 0.052**

Since there's a sudden scramble to add rare earths to the endangered list of products Australia is missing out on, Northern Minerals, with its Browns Range Project in WA, is another company striving to become a leading supplier of critical rare earth elements through its own processing. We like this company's medium-term potential, but wait until the January 2021 spike has washed out.

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# KINGSGATE CONSOLIDATED

A new hope

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**ASX: KCN**  
**Market cap: A\$ 204M**

**52-week range: A\$0.32 / A\$1.15**  
**Share price: A\$ 0.91**

Kingsgate Consolidated has run its Chatree Gold Mine since 2001, producing 1.8 million tonnes of gold and almost 8 million tonnes of silver annually, although that level of production has halted thanks to safety issues and a great deal of blame. Looking towards its new hope in Chile, the company is seeking to re-establish itself with a silver mine there and restart Chatree in the meantime.

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# MYANMAR METALS

What a difference a day makes

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## Share price chart



Source: Tradingview

## 10-year journey to dysprosium

Northern Minerals is currently producing a mixed rare earth carbonate (MREC) through its very own pilot plant at the Browns Range Project, located 160km south-east of Halls Creek in northern WA. The project, which covers 3,595 sq km over the Browns Range Dome, is highly prospective for heavy rare earth elements, including dysprosium and terbium. Rare earth metals are essential to high-tech industries, with the demand for dysprosium and terbium underpinned by the permanent magnet sector (used in electricity generation and transport) as well as several military applications.

The company has committed \$5m for further exploration activities for the next nine months, with more than 16,000 metres of drilling planned. As part of the larger plan, Northern Minerals is also continuing to move on from mixed rare earths by evaluating downstream separation processing options for its ore. The results from exploration combined with early pilot plant test work will go toward the updated Feasibility Study. The project has a total mineral resource estimate of 9.26 million tonnes at 0.67% total rare earth oxides (TREO).

## **The war for rare earths is much more political than we thought**

Much of Northern Minerals' strategy revolves around becoming the biggest producer of dysprosium outside China, which currently holds about 98% of global supply. Dysprosium is vital to the magnets used in Electric Vehicles. And the company's early-stage development puts it in the perfect position to receive government help with the Morrison government's \$1.5bn 'Modern Manufacturing Initiative' (MMI) to support companies like Northern Minerals in its rare earth exploration and development. Any further funding would be beneficial to the company after the government also blocked Chinese rare-earth giant Baogang Group Investments from investing \$20m in Northern Minerals. The company already sells to China through German company Thyssenkrupp, so the turnaround seems to signify Australia's seriousness about building up the rare earth supply at home. For Northern Minerals, this means finding alternative investors, which given the recent executive order from the Trump Administration, could easily be in the US.

For that reason, most of Northern Minerals' work is underpinned by strong growth in the NdFeB permanent magnet sector (NdFeB being an alloy of neodymium, iron and boron), combined with an awareness of the dark side of green technology. The dark side of green technology? Well, there are documented issues in Chinese rare earth production (with the country fighting back against illegal mining) and possibly we in the West are in danger of becoming over-reliant on critical minerals at the expense of old fashioned and reliable fossil fuels. By further establishing rare earth production here in Australia, Northern Minerals is confident it can show that heavy rare earth products can be produced ethically, starting with a turn away from in-situ leaching in its new pilot plant. The company commenced its scoping study in 2019 to find an alternative method of ore separation with US-based K-Technologies, with the goal of advancing the extraction process, lifting the value of the product and eventually unlocking a new rare earth supply chain.

## **Tiny dazzler**

For Northern Minerals, grade is key to its product and that might be down to the Dazzler prospect at Browns Range. Exploration results from Dazzler show grades up to 10 times the average of the current Browns Range resource grade. Dazzler has an inferred mineral resource of 214,000 tonnes at 2.33% total rare earth oxides (TREO), a 50% increase in contained TREO from the MRE made in 2019. As the company is still examining new exploration targets with similar mineralisation to Dazzler, finding 'lookalike' prospects will be a priority in improving the Browns Range resource and improving its mine life to 20-plus years.

Northern Minerals' aim to be a principal supplier of ethically produced heavy rare earth metals is not a pipedream in as much as it follows on from China's own commitment to stamp out bad mining practices. While the company is still in stage one of its plan, we believe there's more than enough room for this company to become a four star rare earth producer. Northern Minerals is currently evaluating stage two and three with the continuation of its downstream scoping study before moving to a Definitive Feasibility Study.

The trouble with Northern Minerals stock right now is that it has spiked recently as a result of favourable drilling at Browns Range before easing back. Those fast gains are now being given up, which is why we've rated the stock two stars. Once this spike has washed out, prepare to be Dazzled.

# KINGSGATE CONSOLIDATED

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## Where did it all go wrong?

Kingsgate was once riding high with its Chatree Gold Mine in the Pijit province of Thailand, 280 km north of Bangkok. In an unfortunate sequence of events, the company was forced to put Chatree on care and maintenance in late 2017 after the Thai government announced all gold mining in the country would come to an end. It was a move many believe was the result of a long-standing argument between Pijit villagers and the Kingsgate subsidiary Akara Resources around heightened levels of toxic heavy metals in the neighbourhood. The company won a case against its insurers in 2019 with a payout to the tune of \$82m. That was enough to fund its fight against the premature closure, but not necessarily enough to redeem Kingsgate's reputation in Thailand.

In a small change of fortune, the company has been given the green light by the Thai government to sell its high-value gold and silver sludge from the mine. As the sludge is actually the leftover material after processing, it doesn't sound particularly 'high-value', but the sludge does contain about 4,750 ounces of gold and 34,800 ounces of silver, giving it a value of A\$14m.

Chatree was the past for Kingsgate. The future is Kingsgate's Nueva Esperanza Gold Project in Chile. Based in a far friendlier mining jurisdiction, Nueva Esperanza (meaning 'New Hope') had its Environmental Impact

Assessment (EIA) approved in September, with the project's Pre-Feasibility Study already outlining a low cost and profitable start-up of 135,000 thousand ounces of gold and silver (mainly silver) for the first five years with an average production of 91,000 ounces. The Maricunga Gold Belt, in the arid Atacama region of northern Chile, has a long history of profitable gold mines and Kingsgate will join Goldfields, Kinross and others in a resurgence of mining in the Maricunga.

### **There's probably a lesson here**

In the meantime, there's still potential for some further value to be realised from Chatree, but Kingsgate has its work cut out for it. Sure, there's still no timeline for a comeback to full production at Chatree while arbitration continues. However, the sludge agreement is a small step towards what could be better relations with the government. For one thing, Kingsgate believes the suspension doesn't meet the conditions under the 2005 Free Trade Agreement between Australia and Thailand. For another, Kingsgate may still be able to satisfy local safety concerns. However, it will take a lot to restore confidence after governmental testing found excessive levels of arsenic and manganese, not just in people's bodies, but in livestock and crops as well. For its part, the Thai government has refused to lift the suspension because Akara could not prove its operations were not a threat to the community's health.

This scenario, as with many other mining ventures – such as the ongoing Bougainville saga – highlights the problem of poor communication and transparency when Western mining companies are operating in emerging countries. Now that Thailand is seemingly backing away from gold mining, it seems that all parties have lost out on what could have been a productive development tool for the area. Even if Kingsgate were to win its case and return to production, we believe the company will have some difficulty appealing to a diverse range of problems and interests.

### **A new hope**

Kingsgate is looking to begin again as a silver miner at Nueva Esperanza and with a potential new company name: New Kingsgate. The project contains three major deposits and has 5.1 million ounces of silver and 250,000 ounces of gold for a total mineral resource of 34.6 million tonnes. The site has a proven history with about 32 million ounces of silver sourced from the main Chimberos deposit in the late 90s. Since the silver price is expected to have a resurgence of its own in 2021 to US\$40 per ounce, Kingsgate's original 2016 Prefeasibility Study Net Present Value of US\$164m, based on a silver price of US\$16, looks a bit dated – silver is more like US\$25 an ounce now.

Even before the shutdown, cash flows from Chatree have funded Kingsgate's other projects, including Nueva Esperanza, so it needs the sludge agreement more than ever. After selling several assets in 2016 (including the Challenger gold mine in SA for \$1m) the company has managed to remain debt-free, but without Chatree, Kingsgate might look to help to continue its early work in Chile. Kingsgate had a cash amount of \$15.5m at the end of the September quarter. The sludge is currently sold at an average price of US\$1,951 per ounce with funds of \$12m made so far.

Kingsgate has previously outlined that it will use Nueva Esperanza as its growth platform. Kingsgate's critics will complain that the company has been saying that since 2017, but, fortunately for the company, a resurgence in both gold and silver prices means that Nueva Esperanza has received renewed interest. While we're not holding our breath on Chatree, we think Nueva Esperanza will bring some good news in 2021. That makes Kingsgate, in our view, a four star opportunity.



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## Share price chart



Source: Tradingview

## Reconstructing the old mine

Myanmar Metals entered a trading halt on 1 February after the shock military coup against Myanmar leader Aung Sun Suu Kyi. Only a day before that, the company was busy beginning the first round of exploration drilling at its Bawdwin Silver-Lead-Zinc Project, which can be found in Shan state of northern Myanmar only 150 km west of the Chinese border. The joint venture project with local partners EAP Global and Win Myint Mo Industries is finally getting off the ground after months of COVID-19 shutdowns, with the company eager to explore seven high priority targets, including the first priority hole at the historic China South deposit.

Those silver-lead-zinc opportunities aside, the company is also getting involved in gold exploration activities at its Tarlay Gold Project, also located in Shan state on the border with China and Laos, to support its long-term strategy of establishing itself in the south-east Asian region. That might be why Myanmar Metals is racing ahead with a third option to acquire the Wuntho copper-gold Project in the Sagaing Region.

## **Well-positioned in a period of uncertainty**

Myanmar's message to its investors prior to the events of 1 February is that it was well-positioned to weather the current COVID-19 uncertainty, thanks largely to its strong financial position (\$16m cash as at December 2020) and joint venture partnerships. But as the Burmese people had only just voted in November 2020 for the country's second democratic election since 2011, a sudden takeover is probably not ideal – at least in terms of short-term sentiment. Miners were previously grappling with the downturn in silver, lead and zinc prices during the early stages of the pandemic and that was made harder for juniors like Myanmar Metals by the continued forced quarantines and halts in exploration.

Last year, Myanmar Metals' share price fell to a level not seen since before it had an interest in Bawdwin – around 3 cents in March – but the company has remained steadfast and positive on rising silver-lead-zinc demand. That may be because Bawdwin is one of the largest lead and silver resources in the world, with 4 million tonnes of lead and in excess of 300 million ounces of silver. Demand for lead is expected to grow 4% per annum, supported by the rechargeable battery market, while silver has recently return to its historic 64-to-1 ratio with that old safe haven, gold.

Given Bawdwin's under-appreciated potential and long-term demand growth, could this week's coup noticeably affect Myanmar Metals' future prospects and others like it? Recent changes to the country's mining code (including more stringent anti-corruption regulations in the sector) have made Myanmar a much more appealing jurisdiction, but the main factor was always the nation's transition to a market-friendly democracy. So current Western investors might feel wary of new sanctions and a potential return to isolationist policies. Myanmar's military, called the Tatmadaw, still retains a lot of political and economic power, and not all of that power is transparent: the Tatmadaw (and its current coup commander, Min Aung Hlaing) have previously been criticised for profiting from junta-controlled mining operations. We believe an open and engaged Myanmar is better for junior miners working there than an isolated one. We can only hope that, given Myanmar's improved economic position since the country began to come out of the cold in 2011, the Tatmadaw believes that as well. Time will tell.

## **Promote the positive**

Myanmar Metals knows full well the complexity of the jurisdiction it has chosen, which is why it maintains such a positive outlook given the history and potential of Bawdwin and the largely underexplored nature of the mineral rich Shan state. The company already has a pipeline of exploration work lined up, with a Phase 1 starter pit at the China Lode estimated to run 13 years, while Phase 2 will target untested mineral resources within the China, Shan and Meingtha Lodes. The Definitive Feasibility Study is currently being completed, but the Preliminary Feasibility Study in May 2019 suggested an NPV of A\$828m on an 8% discount rate. Myanmar Metals is looking at a low-cost operation supported by a flotation plant producing high grade lead and zinc concentrate and transport logistics via the Port of Yangon.

At the end of the day, both Myanmar Metals and the Myanmar government (whoever that may be) want Bawdwin to become a long-life mining district that will benefit the local community and transform the region, which has got to be good for the country as a whole. Despite the current turmoil, Bawdwin is still the tier 1 resource it was back when Hoover was developing it, but the difference lies in Myanmar's changed political environment.

But you know what they say: Crisis equals opportunity. For investors with risk appetite, any weakness in Myanmar Metals' share price once it returns to trading could make it good buying, given the share price prior to the coup was already under-rating Bawdwin's notional NPV by a wide margin. Especially with lead, zinc and silver doing okay now. Four stars.



## **Pitt Street Research Pty Ltd**

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