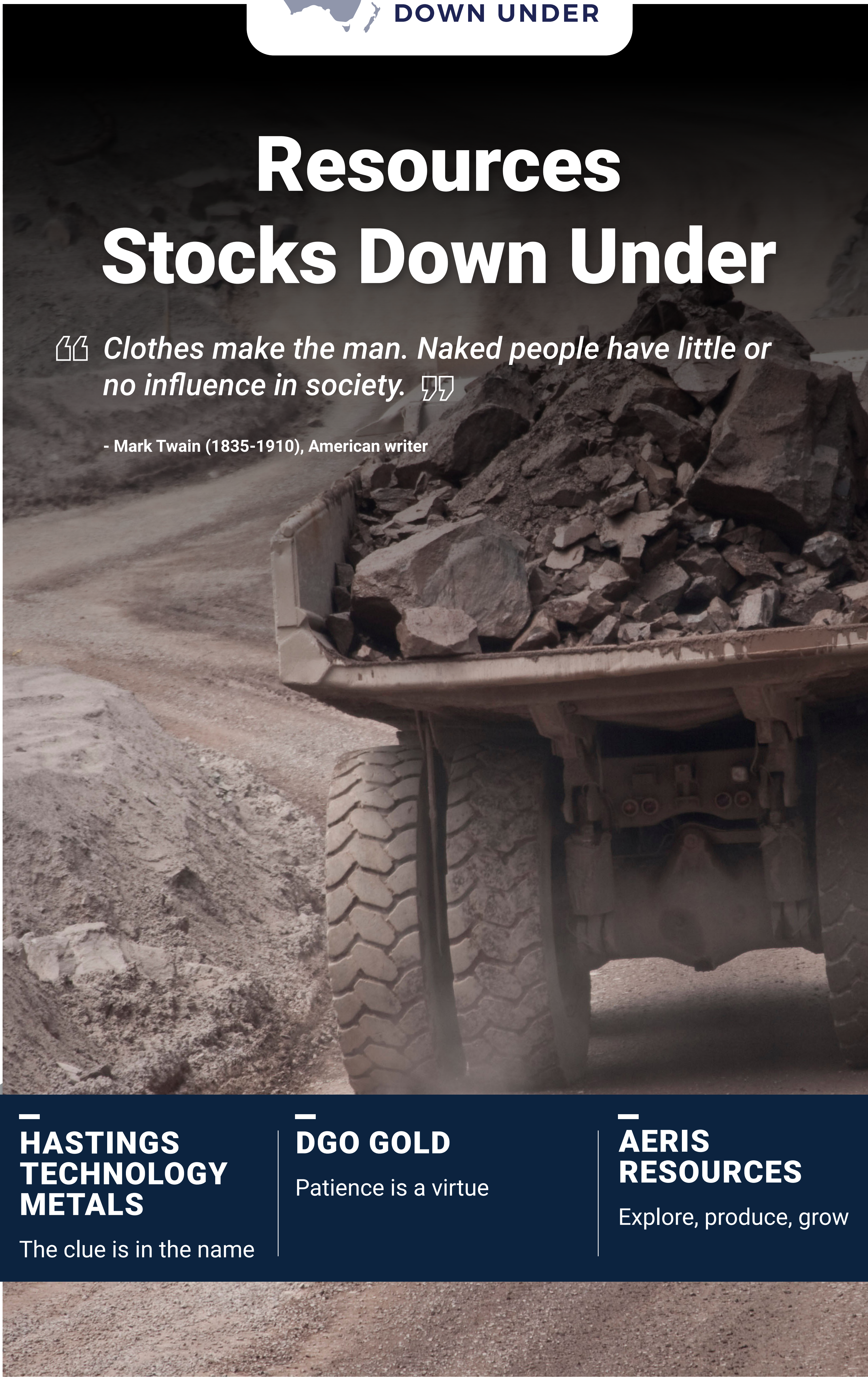
STOCKS DOWN UNDER

25 FEBRUARY 2021



Resources Stocks Down Under

"Clothes make the man. Naked people have little or no influence in society."

- Mark Twain (1835-1910), American writer

HASTINGS TECHNOLOGY METALS

The clue is in the name

DGO GOLD

Patience is a virtue

AERIS RESOURCES

Explore, produce, grow

HASTINGS TECHNOLOGY METALS

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Stocks Down Under rating: ★★★★

ASX: HAS
Market cap: A$ 289M

52-week range: A$0.05 / A$0.27
Share price: A$ 0.24

As its name probably suggests, Hastings Technology Metals is well and truly into the rare earths game – and that is just as well, since the company has planned production to start in 2023 coinciding with the expected uplift in mixed rare earth battery demand. The company has so far hit all the right notes, with a lower than average construction cost and some of the highest rare earth grades outside of China.

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DGO GOLD

Patience is a virtue

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ASX: DGO
Market cap: A$ 202M

52-week range: A$1.18 / A$4.66
Share price: A$ 2.80

DGO Gold, best known for its gold project in the Pilbara right next to De Grey's, is developing its own projects, but is also investing in other companies in search of new exploration opportunities. Its portfolio of projects is rapidly expanding throughout WA and SA, but that isn't stopping the company from hedging its bets on the next big discovery. This stock is potentially four stars but the gold price isn't playing ball right now.

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An almost perfect example of the volatile nature of the resources sector, Aeris Resources has come full circle from underwhelming copper miner on its way to mid-tier catch, improving both its financial status and the resource potential of its projects over the last few years. Having recently acquired a new gold asset, the company is banking on its new copper-gold strategy to deliver strong results.

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Share price chart

Source: Tradingview

It's a slow road to the top

Hastings raised $15m in August for the purpose of extending reserves at its Yangibana Rare Earths Project, which is 270km east-north-east of Carnarvon in the Gascoyne region of WA. The Resource Definition Program will focus on an 8 km-long mineralisation trend covering three deposits at Yangibana - Fraser's, Simon's Find and Bald Hill. If you look at the 17 September announcement from Hasting you'll see how Fraser's is evolving, with drill intersections including 4 metres at 1.31% TREO (total rare earth oxide) just four metres from surface. Those kinds of results have a lot of people thinking that Yangibana could end up with some of the highest grades of any rare earth project outside of China. Fraser's North currently has a Mineral Resource of 1.32 million tonnes grading 1.35% total rare earth oxides (TREO), including 0.56% NdPr (neodymium-praseodymium), with the company preparing an upgrade to incorporate the results.

Yangibana is almost ready to go. It's a significant venture, with the company currently completing an optimising program based on its November 2017 Definitive Feasibility Study for a 'decoupled' mine and hydrometallurgical processing facility and options for the latter to be built in Port Hedland or Onslow. The facility will see production of Mixed Rare Earth Carbonate (MREC) at a rate of 15 kt per annum. The decoupling has enabled the company to revise its CAPEX from $517m to $449m as of July 2020. In November 2019, after an increase in the ore reserve, Yangibana had a Net Present Value (NPV) of $549m (at an 8% discount rate) and an Internal Rate of Return of 21% with a payback of 3.5 years, although a revision is due in the next few months. The willingness of investors to subscribe to the $100m placement at 19 cents on 22 February 2021 tells you that this project is increasingly likely to make it into a producing mine.

The calm before the storm

Yangibana's high grades of neodymium and praseodymium give Hastings better access to the NdPr permanent magnet market, which comprises about 30% of rare earth element use. That high rate of NdPr concentrate (accounting for around 40% of total rare earth oxides in the project) will result in a higher basket price (up to US$30 per kilogram) and a lower separation cost as a result of the optimisation process. Since NdPr is the main alloy used in the strongest class of permanent magnet (NdFeB magnets), demand will come from a range of industries, including the renewable energy, medical and military industries. But it's Electric Vehicle growth where Hastings sees the biggest cost-benefit outcomes.

Geopolitics already plays a huge role in the company's strategy, with Europe's transition to self-sufficiency in the rare earths sector and China's continuous need for the same likely to give Hastings two very profitable income streams outside the US. As long as everything remains on track for the targeted start to production in 2023, Hastings will hit a prime time in NdPr demand, with annual shortages of NdPr expected to hit 16KT by 2030 and MREC demand expanding five-fold during the same time, with the market worth US$15bn.

Better late than never

Hastings has already secured 65% of its projected production in MREC offtake agreements, including German manufacturer Thyssenkrupp, for the first 10 years of the mine. Given the $449m construction figure, the spotlight on Hastings to succeed is greater now that Australia's largest rare earth producer, Lynas Corp, has seen production slow at its Malaysian processing plant due to COVID-19 shutdowns. This is further evidence of just how fragile the rare earths supply chain outside China has become, even in the short term. If that blip shows anything, it's that high-grade and low cost operations like Yangibana can't come into fruition soon enough.

The February placement puts Hastings in an excellent position to progress Yangibana. Obviously, project financing still needs to be secured, but Hastings can now start to source equipment and do mine site works and front-end engineering plant design, all of which brings closer the day when Hastings will become the largest NdPr producer outside of China. Something which other Australian rare earth hopefuls might be keen to replicate. Four stars from us.

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Share price chart

Source: Tradingview

Part explorer, part investor

DGO Gold currently has five gold and two copper-gold greenfield exploration projects in the pipeline, including its Mallina gold tenements in the Pilbara (not to be confused with De Grey Mining's Mallina Project, which sits next door), Yerrida Copper-Gold in the Murchison district and Pernatty Copper-Gold on the Stuart Shelf in SA. Drilling programs at its Mallina tenements in June didn't find any gold intercepts, but it did find evidence of anomalous gold and antimony, which is associated with gold mineralisation. Elsewhere, air core drilling began in November at its Yerrida and Black Flag targets in the Murchison, where previous RC drilling found more impressive gold intercepts, including 12 metre at 3.2 g/t of gold.

Greenfield exploration is only one half of DGO Gold's strategy. The company also wants to leverage exposure through investing in promising brownfield opportunities. Perhaps not surprisingly given the location and size of the Mallina Gold Belt, DGO has a 16% stake in De Grey. The list of brownfields is continually expanding to include a current 14% stake in NTM Gold (ASX: NTM) and the company's 8% investment in Yandal Resources (ASX: YRL) in January, with WA's 17moz Yandal Gold Belt proving as prospective as Mallina. DGO's bullish stakeout of its neighbours saw its share price rise to $4.19 in early September.

The data speaks for itself

DGO Gold has been proactive but picky in its greenfield choices, but for good reason: it has specific criteria to invest only in those projects which have the potential for 5 million ounces or better, significant growth options and proximity to world-class infrastructure. It's no accident that the company's tenements are positioned close to tier 1 brownfield opportunities. The company is basing Mallina's prospects on De Grey's discovery of the large gold system at its Hemi prospect, which boasts similar amounts of pyrite and arsenopyrite present. The depths De Grey has drilled is also an indicator for further work at DGO's own Scottie Well deposit. Further south, the company's Yerrida tenements in the Yerrida Basin are prospective for DeGrussa-style copper-gold, with Sandfire's DeGrussa Copper Mine only 75 km north of the tenements.

The company began its 2019/2020 financial year with a $21m market cap and ended it with $240m, and most of that is based on investment subscriptions and the current gold run. DGO has definitely done its research to create as much value as possible, but the strategy is not just about creating wealth: it's a unique solution to integrate the company into an already busy WA sector, with the 'best' land locked up by so many other juniors.

All of DGO's brownfield investments have been diligently assessed by director Ed Eshuys, an experienced geologist who spent considerable time finding the most notable juniors against DGO's criteria. If nothing else, the strategy offers appeal to investors interested in gold juniors, but are unsure who to pick. There is still an element of risk, particularly in its greenfield strategy, with no guarantee of the sorts of discoveries seen in De Grey or NTM.

Patience is a virtue

The more money the company pours into its 'competitors', the more it can capitalise on relatively low-cost brownfield discoveries, but that doesn't mean that DGO isn't set on making big discoveries of its own. The company is set to host a plethora of drill programs over the next six months concentrating on Western Australia, with Mallina its top priority. But given the extent of its greenfield prospects, which covers 12 sites in total, it's fair to say that DGO is willing to be patient regarding both sides of the dual strategy.

The company completed its latest capital raise in December for $10.5m, but with a cash position of $4m before that, much of the new money will go toward further investments. The bullish gold price has helped sustain much of the company's forward momentum, so DGO is not worried about reliable growth. It's a developing strategy is a long game for DGO, but it's work at Mallina and Yerrida/Black Flag shows promise, so it would be comforting to see more encouraging results throughout its projects in the future. Three stars for now.

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Source: Tradingview

Maintaining the momentum

Last June Aeris acquired the Cracow Gold Mine in the Capricorn region of Queensland, about 550 km northwest of Brisbane. If you've been following the gold space for a while you will have heard of Cracow because it was a foundation asset of the gold major Evolution Mining (ASX: EVN) when that company was put together in 2011. Believe it or not, there's an actual Queensland town named Cracow, postcode 4719, population 89, named after the city in southern Poland, and the gold mine there was developed from historic workings dating back to 1875.

The Cracow Gold Mine, which Aeris inherited, had already produced 1.4 million ounces from the 2004 inception, but the mine's expiry date was 2023 on Evolution's numbers, making it of little interest when bigger prizes, such as Red Lake in Canada, beckoned (see our 18 August 2020 coverage on Evolution for more). Aeris, however, believes Cracow is the gift that can keep on giving, with significant upside exploration potential from multiple underground targets, potential new open pits and greenfield areas to explore. Indeed, Aeris reckons before too long its new mine will have at least another five years of life beyond 2023.

Before Cracow, Aeris has previously demonstrated that its copper strategy had legs through improvement work at its Tritton Copper operations near the town of Nyngan in central NSW. The Tritton and Murrawombie underground mines are exploiting resources totalling 20 million tonnes at 1.5% for 200,000 tonnes contained copper and 10 million tonnes at 1.3% for 89,000 tonnes copper respectively, but a creeping copper price is helping Aeris with its renewed mine plan to deliver 24,000 tonnes of copper annually. Extensions at Tritton and Murrawombie and the development of high-grade prospects at Budgerigar, Kurrajong and Avoca Tank underground has helped build the company's hopes, with the mine producing 23,088 tonnes of copper in FY20.

It just makes sense to add gold

As Aeris prides itself on its ability to extend the resources and mine life of its projects, it's not hard to see why Cracow is such a valuable asset to the company in the long term. In the short term, that mine, with the help of the strong gold price, is expected to yield around $137-155m in net mine cash flows over the next two years, for an EBITDA of $272-282m.

The strong cashflows have already allowed Aeris to pay off a second $7.5m instalment of its $30m debt facility for Cracow in December, leaving the company to concentrate on extending the mine life and further exploration in the new year. Since the Cracow acquisition the company's share price has reflected the growing confidence, with the quick cash flow and exploration programs on site lifting the share price to 12 cents in early January.

The fact that Aeris was able to acquire Cracow for only $60m cash upfront is a testament to its financial turnaround after years of suffering a high debt burden (paying off more than $100m since 2012) and relative obscurity. With net debt now down to $28m as of September and a record cash flow of $64m and cash in hand of $29m, Aeris' new financial standing brings it closer to mid-tier status and its aim of more mergers and acquisitions down the track. Tritton and Cracow are not the only assets the company is aiming to improve. Aeris, along with joint venture partner Argonaut Resources, is looking to resume development at the iron-oxide-copper-gold Torrens Project, located in the Stuart Shelf region of SA. Torrens is geologically complex, meaning the company will spend this quarter finishing a passive seismic survey to get a better idea of the scale of the project before any further decisions are made.

Past performance is no indicator of future reward

The work Aeris has done in restructuring itself with the new copper-gold strategy is beginning to pay-off, but the company has a busy calendar 2021 ahead of it. Aeris has put a $13m budget toward its exploration program at Cracow. Testing has already begun at the Klondyke and Roses Pride deposits, with reverse circulation drilling at the latter recently intersecting gold mineralisation along a 400m strike (up to 5.45 g/t gold). Next up will be driling targeting extensions at the Killarney and Kenneth prospects, and after that we are likely to see an updated mine life estimate for Cracow.

While it's slow going, we see Aeris' change in fortunes as a solid four star effort, and it should get better for the company now that it continues to find high-grade deposits the longer it explores, especially at Tritton. There is added potential for two open pits at Murrawombie and Budgerigar (south of Tritton proper) and greenfield exploration to the north at the mysteriously named Anomaly K. The company forecasts 23,500-24,500 tonnes of tonnes of copper from Tritton and 70,000-75,000 tonnes of gold at Cracow in FY21. We think this is a four-star company.

Pitt Street Research Pty Ltd

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