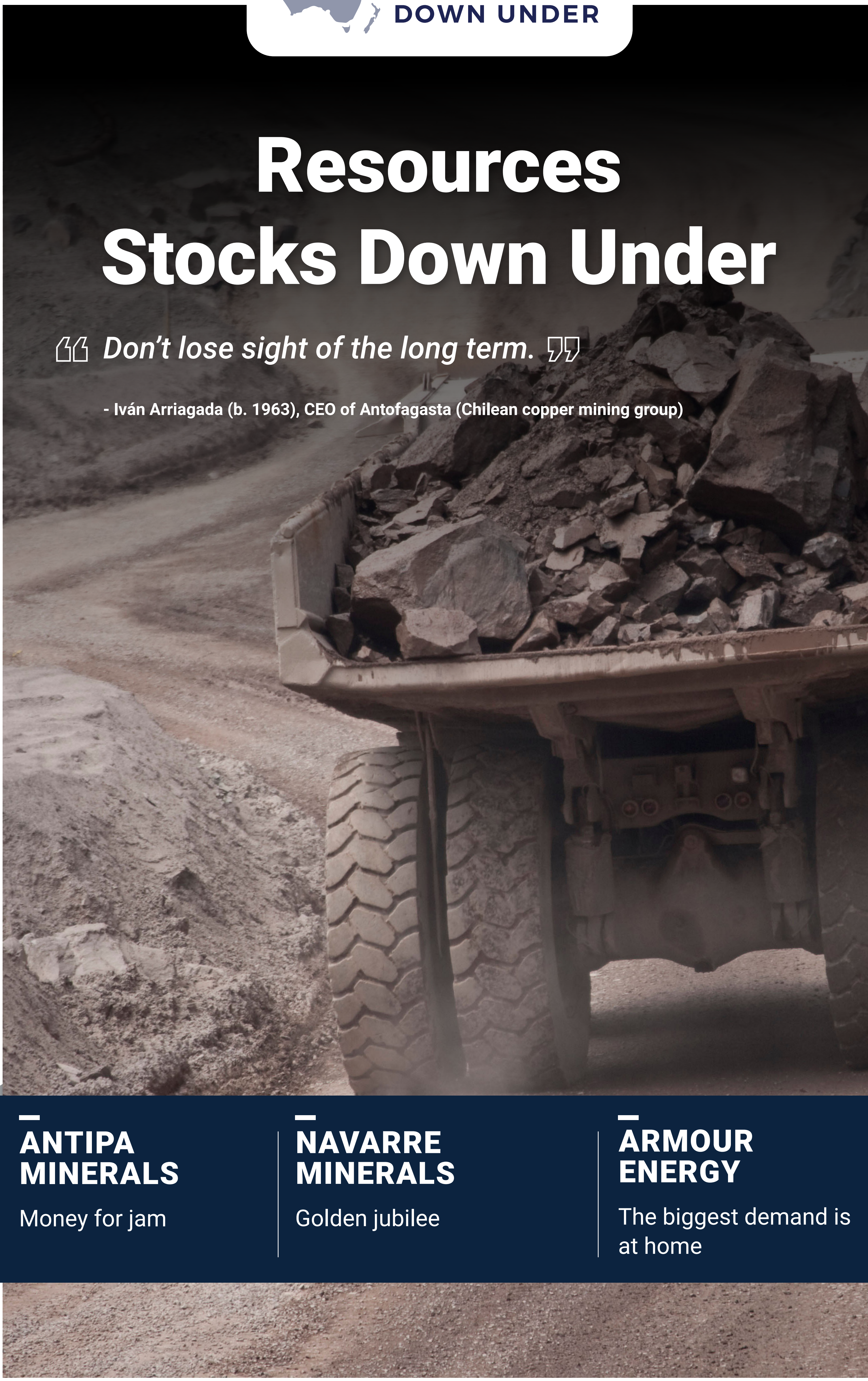
STOCKS DOWN UNDER

4 MARCH 2021



Resources Stocks Down Under

“Don’t lose sight of the long term.”

- Iván Arriagada (b. 1963), CEO of Antofagasta (Chilean copper mining group)

ANTIPA MINERALS

Money for jam

NAVARRE MINERALS

Golden jubilee

ARMOUR ENERGY

The biggest demand is at home

ANTIPA MINERALS

Money for jam

Stocks Down Under rating: ★★

ASX: AZY
Market cap: A$ 87.5M

52-week range: A$0.011 / A$0.062
Share price: A$ 0.033

In terms of its exploration acreage Antipa Minerals is in a fine position right now, given its work in the rich copper-gold Paterson Province of WA. The Paterson has captured the attention of some of Australia's biggest miners, most notably Rio Tinto, Newcrest Mining and IGO, looking for their share of the spoils. Antipa recently signed a joint venture deal with Rio Tinto for its Citadel Gold-Copper-Silver Project. However, we think the market will be bored with this stock in the short term until Dr. Drill delivers some further excitement.

READ MORE

NAVARRE MINERALS

Golden jubilee

Stocks Down Under rating: ★★★★

ASX: NML
Market cap: A$ 76.5M

52-week range: A$0.05 / A$0.30
Share price: A$ 0.14

When Australian investors hear the words 'Victorian Gold Rush', they invariably think of a time long past, but with Victorian gold production at record levels and the state government directly pushing for companies to take up new mining licenses, a second Victorian Gold Rush seems to be happening right now. Navarre Minerals is on a mission to develop Victoria's next big gold mine and it has plenty of 'shots on goal'.

READ MORE

ARMOUR ENERGY

The biggest demand is at home

Stocks Down Under rating: ★★

ASX: AJQ
Market cap: A$ 42M

52-week range: A$0.018 / A$0.064
Share price: A$ 0.042

Australian gas companies are suddenly in a good place thanks to rising LNG export prices, but even in the midst of the so-called gas led recovery, there is some speculation that that recovery might be short-lived. That might explain why Armour Energy stock has been weak since late December, even with the Kincora Gas Project delivering well and the company expanding its gas portfolio elsewhere. We like Armour's medium term prospects, but in the short term we believe there is better value elsewhere, even after the 3 March share price spike related to a demerger announcement.

READ MORE

ANTIPA MINERALS

Money for jam

Stocks Down Under rating: ★ ★

ASX: AZY
Market cap: A$ 87.5M

52-week range: A$0.011 / A$0.062
Share price: A$ 0.033

In terms of its exploration acreage Antipa Minerals is in a fine position right now, given its work in the rich copper-gold Paterson Province of WA. The Paterson has captured the attention of some of Australia's biggest miners, most notably Rio Tinto, Newcrest Mining and IGO, looking for their share of the spoils. Antipa recently signed a joint venture deal with Rio Tinto for its Citadel Gold-Copper-Silver Project. However, we think the market will be bored with this stock in the short term until Dr. Drill delivers some further excitement.

Share price chart

Source: Tradingview

Good help if you can get it

Antipa has done what any good junior would do and loaded up on joint venture agreements with big name majors, providing the extra resources, funding and experience needed to define the company's 5,200 square kilometre gold and copper tenements in the Paterson Range of Western Australia. The Paterson covers over 30,000 square kilometres of the Pilbara and is centred roughly 450 km southeast of Port Hedland. The company currently has three joint venture projects in this neighbourhood, all seemingly as prospective as the last. An exploration campaign at the Citadel Joint Venture Project commenced in May 2020 to improve knowledge of, and test extensions to, the Citadel deposit, only 45 km from Rio Tinto's Winu Copper-Gold project. Citadel, which also includes the Magnum deposit, has an inferred Mineral Resource of 47.7 million tonnes at 0.85 g/t gold, 0.15% copper and 0.48 g/t silver after 13,000m of resource drilling. Rio supplied $9.2m in 2020.

In February and July 2020 respectively, Antipa also engaged in farm-in agreements with Newcrest Mining and IGO at the Wilki and Paterson Copper-Gold Projects. Newcrest and Antipa spent the last quarter surveying multiple new targets at Wilki, with three priority targets sharing similar characteristics to the joint Haverion Gold Project. Outside of that, Antipa still retains its 100%-owned slice of the Paterson with the North Telfer Project, 20 km north of Newcrest's Telfer Mine.

A major undertaking

The Paterson Province is most well-known for Rio Tinto's Winu copper-gold and Newcrest and Greatland Gold's massive Haverion discoveries, but Antipa has been working on the ground in the region since 2011, well before either Winu or Haverion existed. That's lucky for the company as not only is the Paterson oddly underexplored, it's becoming prime hunting ground for majors looking to expand their territory and happy to join with juniors to do it. This is why Antipa describes its position as 'unique'; all of its farm-in agreements provide fast-tracked exploration and a significant limit to the company's expenditure, at least in the short-term. Newcrest, Rio Tinto and now IGO have agreed to a minimum spend, with a total spend of $20m over the next two years. That gives you an idea of how confident these companies are in the land.

Perhaps most importantly, the combined experience of those companies provides a better chance of finding the next big gold-copper discovery. The potential to expand the scale of Citadel is made better by the use of GAIP (gradient array induced polarisation), which was successfully used to identify hidden copper-gold mineralisation in thick sulphide areas at Telfer and Winu. So far, that has already paid off with a newly defined large copper-gold target ('GAIP20-01'), which spans 1.5 kilometres and shows similar chargeability to the Calibre and Magnum deposits. That combined experience is particularly useful for Antipa's greenfield projects, with the new farm-ins leaning further into the El Paso Structural Corridor between Haverion and the Minyari-WACA deposits at North Telfer.

The trend is your friend

You can't deny that Antipa has done a great job of ensuring its assets in the Paterson get the necessary attention, even if the end result is more exposure for less money after 2-4 years. By giving these majors such a huge role, Antipa is the benefactor of the kind of expenditure most juniors could only dream of – with a cumulative potential free-carry of $150m in the long-term. And while the agreements differ from each other, they will end up giving Antipa better knowledge and potentially better options for any future ventures or acquisitions.

As at the end of December, the company still had a cash balance of $10.1m, but the Citadel campaign with Rio Tinto is continuing with a healthy $13.8m going towards a potential update to the current MRE, the extension of GAIP surveys and a 14,000 metre diamond and reverse circulation drill program focussing on the Magnum deposit. In the end, the core focus is on finding Haverion, Winu and Telfer analogue trends, and the 2021 schedule looks to be newsworthy while investors from all parties wait for the next big announcement.

So what's not to like about Antipa right now? Well, sentiment on the Paterson tends to wax and wane. At the moment it's waning, as investors take profits after last year's excitement. That's why we're only saying two stars right now. We think sentiment will return and we believe it won't take more than a quarter or so of decent exploration results to get people interested again.

NAVARRE MINERALS

Golden jubilee

Stocks Down Under rating: ★ ★ ★ ★

ASX: NML
Market cap: A$ 76.5M

52-week range: A$0.05 / A$0.30
Share price: A$ 0.14

When Australian investors hear the words 'Victorian Gold Rush', they invariably think of a time long past, but with Victorian gold production at record levels and the state government directly pushing for companies to take up new mining licenses, a second Victorian Gold Rush seems to be happening right now. Navarre Minerals is on a mission to develop Victoria's next big gold mine and it has plenty of 'shots on goal'.

Share price chart

Source: Tradingview

Golden Jubilee

Suppose its list of projects is anything to suggest. In that case, Navarre Minerals is not just dreaming of Victoria's gold renaissance, but actively competing for the best position possible in and around the Victoria's Golden Triangle. The company now has four key projects: Stawell Corridor (incorporating the Irvine and Langi Logan prospects), Tandarra, St Arnaud and Jubilee. The company is also engaged in the Western Victoria Copper Project, covering 100 km of the Stavely Arc Volcanics. Navarre's exploits were starting to pay off at the end of CY20 with its shares rising to an all-time high of 28 cents in November.

Navarre began its maiden drilling program at the Jubilee Gold Project in November with the aim of finding a significant gold discovery to rival the Fosterville Mine of Kirkland Lake (ASX: KLA), while reconnaissance drilling at St Arnaud has identified shallow gold mineralisation 5 km north of historic mine sites. At the same time, the company launched its air core drilling campaign at Langi Logan, adding to the regional diamond drilling campaign already happening at its Resolution Lode deposit at the Irvine prospect. Navarre improved its high-grade results at Resolution Lode, including 5m at 10 g/t gold from 273m. Navarre expects the current campaign to inform its maiden mineral resource at Stawell in the near future.

The next Stawell Gift

This combination of old mines and new projects is an unusual collation for a gold portfolio (particularly from a young small cap company), but much of Navarre's merger and acquisition activities have been supported by the seven-year high gold price of 2020 and the State Government's mining push, both of which has helped to facilitate a turn towards Victoria's gold potential. But there is a method in Navarre's madness: much of the company's exploration ground has a gold mining history and a lot of forgotten potential. Jubilee, which is 25 km south-west of Ballarat, has not been mined for over a century, but back then it did 130,000 ounces at an average grade of 12 g/t gold. Now that Navarre has appointed Ian Holland as Managing Director, a veteran of Fosterville and Kirkland Lake, the company has another level of experience needed to develop Victoria's next big gold mine.

The Victorian government's 2009 'Gold Undercover' initiative has estimated exceptional gold mineralisation with a possible 38 million ounces of undiscovered gold in the Stawell Zone. For Navarre, the Stawell Corridor and Resolution Lode has the potential to be the next big multi-million-ounce gold mine. The Stawell Project's exploration model is based on the four million-ounce Magdala Gold Mine in the neighbourhood. Magdala has similar geometry and style of gold mineralisation, with the Stawell Corridor project believed to contain seven probable Magdala analogues over the 70km tenement. So far, 15 holes have been drilled at Resolution Lode with about 60% of its 10,000m drilling program complete. Resolution Lode continues to deliver, with December's diamond drilling results showing high-grade intercepts up to 55 grams per tonne over 12,000 metres.

Rushing to be top dog

Since listing in 2011, Navarre has shown real urgency in its gold program. While 2020 has provided a strong gold incentive, the company has acquired and delivered, with alacrity, promising results from the projects it is working on. Despite significant shareholder support from big names, like Kirkland Lake, using the respective market capitalisations of Victorian gold peers Stavely Minerals, Kalamazoo Resources and Catalyst Metals, Navarre appears undervalued. Especially since 2021 could be a defining moment for the company with its newly strengthened team.

Navarre will continue its season of drilling at Jubilee and St Arnaud into 2021, but with strong economics in place and $11.9m in cash, much of the attention will be centred on the Stawell Corridor. But thanks to the company's quick turnaround times, we believe the Jubilee Project is an equally exciting prospect in Ballarat, arguably Victoria's most well-known gold region. Navarre is a four-star gold explorer, in our view, with plenty of avenues to explore.

The price chart suggests that 12 cents might be a good entry point from a technical analysis point of view.

ARMOUR ENERGY

The biggest demand is at home

Stocks Down Under rating: ★ ★

ASX: AJQ
Market cap: A$ 42M

52-week range: A$0.018 / A$0.064
Share price: A$ 0.042

Australian gas companies are suddenly in a good place thanks to rising LNG export prices, but even in the midst of the so-called gas led recovery, there is some speculation that that recovery might be short-lived. That might explain why Armour Energy stock has been weak since late December, even with the Kincora Gas Project delivering well and the company expanding its gas portfolio elsewhere. We like Armour's medium term prospects, but in the short term we believe there is better value elsewhere, even after the 3 March share price spike related to a demerger announcement.

Share price chart

Source: Tradingview

Almost no basin left untouched

Armour Energy's company-maker was the Kincora Gas Project in the Surat Basin of Queensland. In November the company completed stimulation work at the project's Warroon 1 well, the third in a $4.7m program, which also includes the Horseshoe 2 and Horseshoe 4 wells. Per the end of January, those wells were connected to the sales gas gathering network, with Horseshoe 4 delivering 1.34 million cubic feet (mcf) during flow testing, but Armour is already looking at three more wells at Kincora as it seeks to build a multi-trillion cubic feet wet gas resource.

Further afield, Armour is continuing to build its gas portfolio across the country, with its NT McArthur and Isa Superbasin, Cooper and Southern Basin Projects also core to its national strategy of establishing a multi-TCF wet gas supply. The company's latest acquisition, from Oilex (ASX: OEX) is a Cooper Basin Project, which has historically produced 1.5 million barrels of oil and was once a Santos operation. The project's relative location to Armour's existing Cooper Basin permits (which stretch over 5,000 square kilometres) will yield added exploration ground on the northern and western flanks of the basin.

Getting back on track

Like Empire Energy Group (ASX: EEG), which we covered in Resources Stocks Down Under on 28 January, Armour is the beneficiary of the Federal Government's Gas Recovery initiative, although Armour has a more far-reaching foothold in both the NT and QLD than Empire, giving it access to two rising growth markets. While the pandemic affected the company's performance for a good part of the year – including cost reduction measures and CAPEX deferrals – steadily rising spot prices have rather renewed Armour's belief in its ability to make the most of its core operating areas. Almost right on time, Asian LNG prices reached an eleven-year high of US$32.50 / mmbtu in January 2021, which has clearly also spurred on investors, with Armour's share price reaching 6 cents in late January from the 2-cent plateau for most of the July-September quarter.

While the company's first priority is to deliver a sales production increase of 4-6 TJ/per day from Surat, Armour is still invested in delivering value from its underutilised assets (such as the Newstead Gas Storage facility in the Cooper Basin), but the company is looking to get a handle on its debts before it can do that. This has been made slightly easier by Armour's January sale of its remaining interest in the South Nicolson Project in the Isa Superbasin to Santos for $12m. The original farm-in agreement meant that Santos would acquire 70% by spending $65m over four years, but getting out of South Nicolson allows Armour to spend more in the Surat and the McArthur Basins – arguably the areas with the best infrastructure and exploration potential.

Transformational opportunity or pipe dream?

While higher LNG prices lifted Armour Energy in the second half of 2020, there is still the overriding problem of gas-led anything as a short-term solution, especially now that the same countries currently demanding LNG gas (Japan, Korea and China) have committed to decarbonisation in the long term, which could very well mean that Australia gets stuck with fewer export options. Armour is very much on par with other energy producers (including Empire Energy) in its calls for greater concentration of gas reserves at home to offset high local prices, and that extends as much to the East Coast markets as it does at the Top End.

On the financial front, Armour has managed to reduce its debt from $64m to $44m via the Santos deal and December's $15m capital raise, providing a cash position of $5.8m. There may be an opportunity to re-acquire South Nicolson permits down the track, but the company's focus is on further development at Surat and the remaining Northern Basin permits. It may not be the last deal, with Armour now hinting that it would be open to further farm-in agreements to fast-track development and production licence approvals at McArthur, which is tentatively scheduled for first production in 2022.

If gas prices are favourable and this company basically remains in growth mode, what's not to like about Armour? Well, we think the weakness since December is the market's concern that it is still vulnerable to lower gas prices given the debt level it is still carrying. There's a view that the recent Santos transaction was done too cheaply. These concerns are nothing a few new development wells at Kincora can't fix. And on 3 March Armour announced that it was spinning out its McArthur Basin projects into a new company called McArthur Oil and Gas Ltd, which should reduce the debt burden a little more. That said, even after the 3 March share price jump, but we wouldn't fight the tape on this one in the near term. For now it's two stars, but watch it carefully for signs that the stock is truly bottoming.

Pitt Street Research Pty Ltd

95 Pitt Street, Sydney, NSW 2000, Australia