STOCKS DOWN UNDER

11 MARCH 2021

Resources Stocks Down Under

> *"Paying attention to simple little things that most men neglect makes a few men rich."*

Henry Ford (b. 1863 - 1947), Founder of the Ford Motor Company

BCI MINERALS

A potash project worth its salt

IONIC RARE EARTHS

An ionic unicorn

NEW WORLD RESOURCES

A new name for a new awakening

BCI MINERALS

A potash project worth its salt

Stocks Down Under rating: ★★★★

ASX: BCI
Market cap: A$ 189M

52-week range: A$0.10 / A$0.35
Share price: A$ 0.31

Far and away from the Pilbara's reputation as an iron ore hotspot, there is also significant potential for a long-life potash development and that's what BCI Minerals is endeavouring to make with the Mardie Potash and Salt Project. While it's a step away from the company's previously bullish take on the reddish metal, the market volatility expected in the coming years has finally prompted BCI to go in another direction, albeit with some remaining royalties on the side.

READ MORE

IONIC RARE EARTHS

An ionic unicorn

Stocks Down Under rating: ★★★★

ASX: IXR
Market cap: A$ 159M

52-week range: A$0.004 / A$0.065
Share price: A$ 0.05

Ionic Rare Earths, formerly Oro Verde, is another in a long line of rare earth explorers looking to become a top producer of rare earth oxides and promote the emerging supply chain outside China. The Makuutu Project in Uganda represents an uncommon style of deposit and Ionic is aiming for a much less costly and intensive operation compared to hard rock projects. The company believes it is sitting on a potential tier 1 asset.

READ MORE

NEW WORLD RESOURCES

A new name for a new awakening

Stocks Down Under rating: ★★★★

ASX: NWC
Market cap: A$ 69M

52-week range: A$0.005 / A$0.067
Share price: A$ 0.056

When cobalt prices were crushed by the COVID-19 pandemic and a slower than expected upswing in demand, New World Resources did the smart thing and switched to its back-up: copper. The company was already well-positioned to benefit from the copper opportunity given its growing portfolio of polymetallic projects, but the change in direction now puts New World squarely in the driver's seat and it's moving forward again.

READ MORE

BCI MINERALS

A potash project worth its salt

Stocks Down Under rating: ★★★★

ASX: BCI
Market cap: A$ 189M

52-week range: A$0.10 / A$0.35
Share price: A$ 0.31

Far and away from the Pilbara's reputation as an iron ore hotspot, there is also significant potential for a long-life potash development and that's what BCI Minerals is endeavouring to make with the Mardie Potash and Salt Project. While it's a step away from the company's previously bullish take on the reddish metal, the market volatility expected in the coming years has finally prompted BCI to go in another direction, albeit with some remaining royalties on the side.

Share price chart

Source: Tradingview

Swapping iron ore for salt

BCI's newest venture is based on the Pilbara coast around 80 km southwest of Karratha. The Pilbara coast is already a supreme location for a salt project, with Rio Tinto and the Japanese company Mitsui accounting for five solar evaporation salt operations up there. However, BCI wants to go one better, using the Pilbara's unique characteristics to build Australia's largest salt operation as well as a premium granular SOP (sulphate of potash) fertiliser. Much of the groundwork has already been done with 2019's Definitive Feasibility Study outlining 4.4 million tonnes of salt and 120,000 million tonnes of SOP for 60 years. Mardie has a Pre-Tax Net Present Value of $1,197m (7% discount) and an Internal Rate of Return of 15.3%.

In December, the company's share price reached a high of 30.5 cents on the news that Mardie had been approved for a $450m loan facility from the Northern Australian Infrastructure Facility (NAIF). The loan is a significant step in BCI's plans to speed up the development at Mardie, which includes new port infrastructure and new export opportunities to Asian markets. The company's switch to potash has seemingly been in the works since 2018, although BCI Minerals didn't sell its Kumina and Bungaroo South iron ore projects to Mineral Resources (ASX:MIN) until last March, when the share price hit a low of 9 cents. It's currently holding above 30 cents.

Why be the anchovy when you can be the cheese

As much as the Pilbara is known for iron ore projects, salt is actually the region's biggest export commodity. And as Mardie is projected to become a tier 1 potash project with a minimum 60-year life, BCI – and its very influential major shareholder Kerry Stokes – aren't so much sidelining iron ore as seizing a second opportunity. Despite Rio Tinto largely monopolising the salt scene over the last 50 years, that $450m loan facility speeds up the company's ability to disrupt Rio Tinto's control with the added bonus of becoming the only SOP producer in Oz. While BCI will be cost competitive with its salt production, a SOP by-product will make Mardie one of the lowest cost productions in Asia with CIF at US$16/t.

The swing away from iron ore to potash seems to be all about stable pricing and expected growth. SOP and salt product prices are less cyclical than iron ore, but a growing deficit in premium SOP products means that the global market for SOP (around 7 million tonnes per annum) is expected to grow 15% by 2030. Compare this with iron ore, which is currently well above US$150 per tonne. It is not expected to remain there, if the Resources and Energy Quarterly for December 2020 is any guide. That publication, from the Australian government's Department of Industry, Science, Energy & Resources, is flagging the potential for iron ore to be back below US$100 by next year. The forecasters in Canberra may be wrong, given there is also a growing supply and demand imbalance with China increasing its intake of iron ore during the pandemic (with other Asian countries following suit) and certain jurisdictions, like South America, failing to meet previous export levels. However, BCI has decided it would rather do without the hassle of another iron ore bear market.

This doesn't mean that BCI has forgotten about its stake in iron ore. The company receives royalties from Mineral Resources' Bungaroo South, Fortescue Metal's Nullagine and Rio Tinto's Koodaideri South Projects, but part of its strategy for establishing new port infrastructure revolves around providing a pathway for other commodity projects in the market. Established companies like those above are continuing to invest in new supply sources while new iron ore projects are accelerating, implying it's a wise move to widen its options.

We can still have iron ore as a treat

The company received a record $10m from Iron Valley for the December quarter, with an EBITDA for FY20 at A$23m, also a record. BCI finished the year with a cash balance of A$75.5m and no debt. Even as Iron Valley appears to be a solid cash generator for the foreseeable future and the company has so far secured 13 non-binding off-take agreements for Mardie in Asia, the size of the NAIF loan has significantly de-risked the project, although it hasn't reduced the time it will take to get to production, which won't be until FY27/28.

Still, the company will be actively looking for more binding agreements on top of its lending scheme to cover such a massive undertaking at a capital cost of A$750m. But it's worth it, from BCI's point of view: the development (which includes nine evaporation pools, two plants and the multi-user port) is designed to be both sustainable through solar and wind energy, with an annuity of $197m EDITBA. As the project already has a Major Project Status, BCI is confident it will receive full approval in the first half of 2021. Four stars.

IONIC RARE EARTHS

An ionic unicorn

Stocks Down Under rating: ★★★★

ASX: IXR
Market cap: A$ 159M

52-week range: A$0.004 / A$0.065
Share price: A$ 0.05

Ionic Rare Earths, formerly Oro Verde, is another in a long line of rare earth explorers looking to become a top producer of rare earth oxides and promote the emerging supply chain outside China. The Makuutu Project in Uganda represents an uncommon style of deposit and Ionic is aiming for a much less costly and intensive operation compared to hard rock projects. The company believes it is sitting on a potential tier 1 asset.

Share price chart

Source: Tradingview

Size matters

The Makuutu Rare Earths Project is 120 km east of the Ugandan capital of Kampala. The company is named after Makuutu's 37 km long stretch of ionic absorption clay (IAC), similar to the cheaper and more accessible ionic clay deposits found in China. Although only 25% of the target areas have been drilled, Makuutu has a current Mineral Resource Estimate (MRE) of 78 million tonnes at 840 parts per million (ppm) total rare earth oxides (TREO). Ionic currently has a 51% stake in the project with its farm-in agreement with a local company called Rwenzori Rare Earth Metals.

Exploration work at Makuutu raced ahead during 2020 with two additional exploration licences granted in the September quarter to extend the mineralised corridor from 26 to 37 km. The company completed its Phase 2 drilling program and scoping study at the Makuutu Eastern Zone in November with results showing elevated heavy rare earth content above the existing resource grade.

The core drill program covered an area three sizes bigger than the existing MRE, with assay results and a resource update expected to follow in due course. Ionic now has a speculative exploration target of 240 – 800 million tonnes grading 450 – 900 ppm TREO.

China's isolationism is our opportunity

The company is confident about its ionic clay host deposit because of the benefits of clay-based extraction of rare earth oxides compared to hard rock. Makuutu is somewhat unique in that it's one of the only ionic clay projects outside China, which the company notes is well-known for smaller, but high-value HREE production. And in Makuutu's specific case, the shallow mineralisation means that extraction can be done with a mild salt leaching process (washing the rare earths from the clay, with no crushing or milling) to produce high-grade mixed rare earth oxides or carbonates. This has the potential to yield higher payable returns on the product (up to 70%), or around US$39kg REO. There's an environmental plus, with no need for expensive tailing dam work to remove uranium or thorium. A lower cost operation will also give Ionic more room to consider its processing plant options in Uganda, with local infrastructure providing reliable transport and hydro power options.

It's not just the similarly of Makuutu to other Chinese ionic clay projects which is driving the company; there's also an urgency to benefit from heavy rare earth prices now that China has enacted its Export Control Law imposing restrictions on exports, including 98% of the world's heavy rare earths. Significant heavy rare earth oxides, including the big four permanent magnet metals (neodymium, praseodymium, dysprosium, and terbium) are suddenly finding higher prices, so there is determination on Ionic's part to speed up development at Makuutu. It's also not just a question of rivalling China for the best clay deposits, because such clay deposits (particularly in southern China) are nearing depletion. While there are many hard rock projects in development, Makuutu offers a unique answer to supply concerns, particularly given the indicated scope of the project, which could be in production with a mine life of 33 years.

The same solution with an alternative spin

Now that Ionic has completed Phase 1 of metallurgical testing recovering up to 75% TREE-CE – total rare earths minus Cerium – and is continuing Phase 2 core drill/scoping study program, the company is looking toward its Definitive Feasibility Study in the second quarter of 2021. However, as the required mining licence is not expected until the fourth quarter of 2022, Ionic is putting exploration work front and centre so as to extend mineralisation as far as possible. Doing this has thrown up other prospective options, including the potential to produce scandium either in a bulk mixed rare earth product or as a by-product. Scandium is a specialty transition metal used as an alloy in the aerospace industry as well as high intensity lighting as it produces light similar to natural sunlight.

Ionic has the right to earn up to 60% ownership of Makuutu once the DFS is completed, providing an extra 9% interest, but until then the company's cash balance of $3.3m is more than enough to cover the cost of its exploration licences (about $821,000) until then. Ionic has squarely committed to its rare earths vision since changing its name and removing itself from the San Isidro Gold Project in Nicaragua, but like many rare earth projects there's a fair way to go before any production can make the supply chain more secure. That said, the company has made a good start. Four stars from us.

NEW WORLD RESOURCES

A new name for a new awakening

Stocks Down Under rating: ★★★★

ASX: NWC
Market cap: A$ 69M

52-week range: A$0.005 / A$0.067
Share price: A$ 0.056

When cobalt prices were crushed by the COVID-19 pandemic and a slower than expected upswing in demand, New World Resources did the smart thing and switched to its back-up: copper. The company was already well-positioned to benefit from the copper opportunity given its growing portfolio of polymetallic projects, but the change in direction now puts New World squarely in the driver's seat and it's moving forward again.

Share price chart

Source: Tradingview

Restarting an old favourite

New World Resources was previously New World Cobalt, but the new name reflects the company's expanding American presence – as well as its new copper project in Arizona. On 14 January 2020, New World acquired the historic Antler Copper Mine, 250km northwest of the state capital, Phoenix. Antler has had a long and varied history, discovered in the late 1800s and variously in production until 1970, although a 1975 feasibility study found a resource of 4.66 million tonnes at 1.95% copper, 5% lead, 0.94% lead and 35 g/t silver still in place.

Almost a year to the day after New World's acquisition, the company's January 2021 announcement provided pleasing high-grade assay results from three holes, including a 22m thick intercept in the southern zone, with results pending for another eight.

Before Antler, New World had spent time carving out its own portfolio of cobalt projects, firstly with the Colson Cobalt-Copper Project in the Idaho Gold Belt and then with the Goodsprings Cobalt Project in southern Nevada. A maiden drilling program was conducted in 2018, primarily around the Salmon Canyon deposit, with numerous high-grade cobalt intercepts and options for further exploration, but little work has been done since then as a result of a flagging cobalt price. However, Cobalt is currently staging a comeback.

Looking to copper while cobalt slumps

New World Resources not only wants to rebuild the old glory of Antler but extend the project to greater resource capacity. And if the latest assay results are any indication, exploration in previously undrilled areas shows potential to grow the deposit. This is as important for the American copper sector as it is for the company, since around 70% of US domestic copper production comes from Arizona. Copper ore is still one of Arizona's top export commodities worth $1.6bn in export value in 2019.

The super-surge in global copper demand combined with the state's well-established copper infrastructure could mean a much lower-cost development for Antler in the long-term and this could be helped further by Antler's thick mineralisation hosted in volcanic massive sulphides (VMS).

The ability to restart Antler is a timely opportunity to expand into the copper market while the company waits for cobalt prices to pick-up. Despite Cobalt's stumble in 2020, the outlook for cobalt demand is almost as rosy as for copper, especially now that European Electric Vehicle and renewables markets have suddenly restarted. From an American perspective, US cobalt demand still looks a bit mixed, particularly now that Tesla has plans to remove cobalt from its battery production over the next three years in favour of nickel. Fortunately, competing battery makers throughout the US are depending on cobalt as a strategic metal for batteries and storage for 5G technology and this is already reflected in a rise from US$36,500 per tonne to US$45,700 in recent days. As with Antler, New World is well placed to benfit given its experience in Idaho and Nevada, although those projects too have a long way to go until any sort of production gets started.

New World not giving up on its cobalt strategy

As if Antler was not enough, the company has still got its hands on another copper opportunity in the form of Tererro, a copper-cold project in New Mexico around 20 km north-east of Albuquerque. Although Tererro is not as advanced as Antler, it's thought to be an even bigger VMS deposit. It might take a while to get off the ground, however, as New World has only just submitted the relevant paperwork for an initial drilling program. Tererro has an historic mineral resource estimate of 5 million tonnes with 1.96 g/t gold and 1.02% copper.

New World points out that despite the upside potential of both Colson and Goodsprings, they remain under-explored and in hibernation for the foreseeable future now that all available funding is going to Antler, but the company is still bullish on a dual copper-cobalt strategy in the long-term. As we're unlikely to see much movement from them for the foreseeable, December's $10m capital raise will go to Antler's 2021 program, with a JORC resource update and Prefeasibility Study scheduled for the first half of the year. Thanks to the Antler opportunity, New World has a much better path to production. Four stars.

Pitt Street Research Pty Ltd

95 Pitt Street, Sydney, NSW 2000, Australia

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

You are receiving this email because you subscribed to our Stocks Down Under newsletter.

All rights reserved. No part of this publication may be reproduced or transmitted in any form or by any means, electronic, mechanical, photocopying, recording or otherwise, without prior written permission from Pitt Street Research Ltd Pty. All intellectual property relating to the Content vests with Pitt Street Research unless otherwise noted.

Stocks Down Under (Pitt Street Research AFSL 1265112) provides actionable investment ideas on ASX-listed stocks. The Content has been prepared for general information purposes only and is not (and cannot be construed or relied upon as) personal advice nor as an offer to buy/sell/subscribe to any of the financial products mentioned herein. No investment objectives, financial circumstances or needs of any individual have been taken into consideration in the preparation of the Content. Financial products are complex, entail risk of loss, may rise and fall, and are impacted by a range of market and economic factors, and you should always obtain professional advice to ensure trading or investing in such products is suitable for your circumstances, and ensure you obtain, read and understand any applicable offer document