STOCKS DOWN UNDER

25 MARCH 2021

Resources Stocks Down Under

"My father always said laughter was the best medicine, which is why I was so confused when I finally tried cocaine in the '80s."

- Orrin Bach (Billions), American financial TV show

PEAK RESOURCES

All good things come to those who wait, or make it happen

AGRIMIN LIMITED

Coming up on the inside

BLUE STAR HELIUM

A helium balloon ready to be inflated

PEAK RESOURCES

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Stocks Down Under rating: ★★★★

ASX: PEK
Market cap: A$ 145M

52-week range: A$0.015 / A$0.14
Share price: A$ 0.092

Peak Resources was close to receiving the mining approval from its flagship Ngualla Rare Earth Project in Tanzania, but since the country enacted wide-ranging changes to its mining industry, the company had to be patient. That patience is now paying off with the (sort of) imminent arrival of Ngualla's Special Mining License (SML) or permit for those projects Tasmania deems particularly important. The arrival of the SML and land purchase for a concentrate refinery will bring Peak a step closer to becoming an integrated, non-Chinese, rare earths producer.

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Share price: A$ 0.52

Given Australia's vast salt resources, it's a wonder there is still no potash production in the entire country. It's particularly surprising when you realise that we could make premium sulphate of potash (SOP), a premium potassium fertiliser essential for the most high-value crops grown right here. While many potash companies have suddenly appeared on ASX, Agrimin argues its Mackay Potash Project has certain competitive advantages in the SOP space.

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Share price chart

Source: Tradingview

Tanzania to Teesport

Peak wants to become the lowest-cost producer of neodymium and praseodymium (NdPr) – key ingredients in permanent magnets. And the undeveloped Ngualla currently holds an impressive NdPr deposit. Ngualla's total mineral resource estimate, as per the April 2017 Definitive Feasibility Study (DFS), is an impressive 214.4 million tonnes at 2.15% rare earth oxides (REO), hosting an ore reserve of 18.5 million tonnes at 4.80% REO. That reserve accounts for only 22% of the total mineral resource but is enough to support a 26-year mine life. The study also confirmed the ability to export just under 32,000 tonnes per annum (with a rare earth concentrate grading of 45%). Aside from the main ingredients, Ngualla also provides valuable by-products in phosphate, fluorspar and niobium-tantalum.

As beneficial as Ngualla is to Tanzania's burgeoning mining industry, changes to the country's Mining Act in 2017, which we wrote about in Stocks Down Under on 1 October 2020 when talking about Walkabout Resources (ASX: WKT), have proved somewhat problematic from a sentiment perspective. You'll recall that the changes included compulsory 16% ownership of active mining projects and the right to acquire up to 50% of mining companies under certain conditions. That plus Covid-19 have slowed Peak down.

But it looks like Peak was right to be patient about its plan for an integrated mine and refinery now that Electric Vehicles have started moving again. The refinery, which will enable Peak to become one of the few NdPr oxide producers outside of China, is slated for construction in Teesport, a large port hub 6 km east of Middlesbrough in northern England. The refinery would have an initial annual production of 9.3 tonnes per annum for US$32 kg NdPr.

Sometimes the risk is worth it

Peak was one of the many Australian companies blindsided by Tanzania's legislative changes. But the changes only stuck after the government accused Barrick Gold's subsidiary Acacia Mining of underreporting gold and copper levels in its concentrate exports and underpaying tax and other duties by tens of billions of dollars. That resulted in a US$277bn bill for Acacia and the sort of mining laws that could put a foreign company off of mining Tanzania's riches.

Fortunately for everyone else, the end of the dispute between Barrick Gold and the government has provided some clarification on parts of the Act, including making it easier to access international financing. In Barrick Gold's case, the government will take 'no more' than 50% of the economic benefits from its mine, and that might set the framework for every company deciding to stay.

For Tanzania the reasoning is more than sound. This country's GDP per capita is not high, but it has vast natural resources and a safe mining jurisdiction. John Magufuli, President from November 2015 until his death earlier this month, wanted Tanzania to safeguard those resources rather than end up with empty pits. However, he still wanted to see actual engagement with mining companies, which is why Ngualla is one of two projects slated for SML approval (the other being the Nyanzanga Gold Project of Orecorp (ASX: ORR – see our 10 November 2020 coverage).

And if the Barrick Gold agreement is to be the blueprint for all SML's going forward, Peak will be looking to fund its 'mine and refine' plan even with a low initial capex of US$365m (A$476m) covering both Ngualla and Teesport. The Teeside refinery development is one more indication of the UK and Europe's emerging rare earths chain and a wise choice for NdPr oxides, which coincidentally are almost as high, price-wise, as they were in July 2017 at around US$72 per kg.

Light at the end of the tunnel

While the SML approval process moves at a snail's pace, there are some measures Peak needs to complete, including the establishment of a new Tanzanian incorporated company – name unknown – to fulfil the SML and look after Ngualla. Aside from the slow advance in Tanzania, Peak is also one step closer to buying a 19-hectare parcel of land near Teesport now that the British government gave it a 'free-port' status, which would give the project a chance to develop rapidly.

Peak has enough cash, at $4.8m, to expedite its plans to buy the £1.8m (A$3.2m) plot of land and given that the UK alone has announced a ban on petrol and diesel cars by 2030 in order to decarbonise transport, it would be silly of the company to not go ahead with it. That's especially true when you consider how long investors have been left waiting for something to happen. The market for NdPr is expected to double in volume by 2025, around the time that Ngualla was expected to materialise. Four stars for Peak's stubbornness.

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Share price chart

Source: Tradingview

Potash is all the rage

Agrimin's potential company-maker, Lake Mackay, is named after the fourth largest lake in Australia. Don't expect to find water here, however. Lake Mackay is an ephemeral salt lake around 940 km south of Wyndham, the port town in the Kimberley region of Western Australia.

The Mackay project covers the world's largest undeveloped SOP deposit and contains a mineral resource of 123 million tonnes of SOP. The company's July 2020 Definitive Feasibility Study (DFS) delivered a Maiden Ore Reserve of 20 million tonnes SOP and a production rate of 450,000 tonnes per annum for 40 years. That's probably less than what Lake Mackay will ultimately produce since the company predicts further expansion in the future to meet the expected increase in global demand for seaborne SOP.

Lake Mackay now has its Major Project Status, meaning that it is federally recognised as significant to the economy and will be provided with extra support in approvals, funding and construction. Agrimin has appointed the Dutch engineering firm Royal IHC to design an automated salt dredge operation and Coffey Services for logistics design work. Unlike other potash competitors, which truck harvested salts from evaporation ponds to processing facilities, Agrimin plans to pump wet salts as a slurry to its off-lake processing plant next door. This has the added benefit of increasing the potassium recovery from the brine and reduced transport costs.

The company's share price rose to 64 cents on the outcome of the DFS, which gave Mackay a post-tax Net Present Value of A$839m (US$665m) at an 8% discount rate. The Internal Rate of Return is 21%.

Feeding the world one high-value crop at a time

The rarity of primary Sulphate of Potash deposits and the high-cost process involved in creating SOP means that long-term pricing has been steady – around US$400-550/t – and that's great news for Western Australia's nascent industry. Unlike standard fertilisers, like muriate of potash (which is just potassium chloride), SOP has zero-chloride, making it essential for chloride intolerant crops. SOP is often produced from MOP by the Mannheim process, where sulphuric acid is added to MOP. Not only is that an expensive process, but environmentally questionable in the long-term with the creation of acid waste. Western Australia's abundant primary sources of SOP imply a less expensive operation, which in Agrimin's case might be the lowest of them all.

The company indicates a total capital cost for Mackay at US$415m (A$536m), which includes the mine, processing plant and a new road from the project to the proposed port facility at Wyndham, making Mackay much less isolated all the way out in the Kimberley. The plan to produce finished SOP fertiliser ready for its customer base allows Agrimin to compete with other SOP products with the DFS forecasting US$500/t FOB (Free on Board). Agrimin's goal is to target farmers in developing countries, for whom SOP would be a beneficial productivity tool, but the company is going to have to make sure that it has the right pricing because, in a country like Vietnam, SOP is a luxury, not a necessity.

Everyone needs quality food sources

In terms of actual production, Agrimin is closer than other WA potash competitors, like BCI Minerals (ASX: BCI), as it plans to commence construction in 2022 with production scheduled for 2024. However, unlike BCI the company is still working towards funding agreements. Agrimin ended the December quarter with only $7.7m, but is looking for a Northern Australia Infrastructure Facility (NAIF) loan to anchor the project financing. Agrimin continues to discuss off-take agreements and strategic partnerships with various fertiliser companies to promote its SOP product. And it will also work on various permitting issues and the all-important Environmental Impact Assessment (EIA) this year.

The sudden entrepreneurial progress of Western Australian potash producers places the state in a prime position to meet the coming demand for seaborne SOP now that changing agricultural practices (particularly in the south and south-east Asia regions) will necessitate improving crop yields and food security. And this will become more pronounced as space for arable land decreases. The winners in this environment will be companies with low-cost and sustainable projects that can easily get product onto boats headed for Asia. For us, Agrimin ticks all the boxes. Four stars.

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Share price chart

Source: Tradingview

In 2018 a Perth-based oil and gas explorer called Big Star Energy set out to find helium deposits in the continental United States. The thinking of the Big Star board went something like this: Helium is a high-value specialty gas vital for all sorts of things like semiconductors, rockets, fibre optic cables and so on. Yet you produce it like a bulk commodity, often as a by-product of natural gas production. Importantly, there is likely to be shortages of it in the future.

About 75% of the world's supply of helium comes from the US and Qatar, and America's National Helium Reserve at Amarillo in Texas is, apparently, exhausted. Anyone sitting on new helium deposits in America's Lower 48 will be well placed in the future.

Big Star becomes Blue Star

Big Star leased its first helium-prospective acreage in August 2019 over a prospect called Enterprise near the town of Trinidad in Colorado's Las Animas county, down near the New Mexico border. Las Animas' attraction was an old helium field, called Model Dome, known for many years and had a high helium concentration in the order of 8%. Other leases in Las Animas were quickly added to Big Star's portfolio so that by the time the company became Blue Star Helium in April 2020, it had about 65,000 net acres over more than 11 prospects and leads.

In May 2020, Blue Star Helium reported independent estimates for the Enterprise prospect and the adjacent Galileo prospect suggesting they had a P50 un-risked resource of 3 billion cubic feet of helium. P50 meant a 50% probability that this kind of gas could be discovered and the un-risked part meant that the 3 billion was as if this 50% probability hadn't been taken into account. At Model Dome, the helium reservoir was a sandstone called the Lyons formation, and that's where the estimate for Galileo and Enterprise was made. In November 2020, Blue Star took the Enterprise and Galileo P50 estimates up to 3.5 bcf un-risked.

The beautiful thing about Blue Star's growing portfolio of helium prospects is that it doesn't cost much to prove them up. The typical 'dry hole' cost of a well here is only US$300,000 with only another US$100,000 required to complete if there's a helium discovery. Should helium fields be developed, the relevant processing plants could be rented at low cost and the helium could be trucked out without the need for pipelines.

The helium land grab in southern Colorado

Blue Star currently holds 215,000 gross acres, which translates to 160,000 net, in Las Animas. Gross refers to the actual acres. Net refers to Blue Star's average percentage interest. In addition to the resource estimates for Enterprise and Galileo, it also has estimates for three more prospects, called Galactica (that's right, they named this one after the Battlestar), Pegasus and Argo. Add it all up, and as of early February, the whole Las Animas project had P50 un-risked resources of 9.7 bcf. It's fair to say that 2020, moving into 2021, was a year of progress for Blue Star. And while Covid-19 dented global demand for helium, this is now coming back strongly. All that the Blue Star story needs now is a maiden well. Blue Star plans an initial three-to-five well programme, but that has yet to be initiated.

We believe the fact that we haven't heard from Dr. Drill yet is the main reason Blue Star Energy stock has trended down recently. The stock was 5.1 cents on 25 January but it's since been to 3.0 cents on 8 March. Blue Star has staked the initial well at Enterprise, but needs permitting approval before it can drill. It has yet to stake Galileo, Galactica, Pegasus or Argo. Blue Star is, however, cashed-up for that forthcoming drill programme. It raised $6m at 3.5 cents in late November and as at December 2020, it held $4.9m in cash. However, it may have to wait a little while longer to get started.

A critical mineral

There's been some concern that US President Biden's January 2021 Executive Order to pause oil and gas leasing on Federal land could temporarily slow things down for Blue Star. However, that order isn't relevant because Blue Star's leases are all on state and private land. Of more concern is tighter permitting rules in place at the Colorado Oil and Gas Conservation Commission. Blue Star believes that they won't be a problem because its wells are technically simple, away from population centres and target helium, not oil or gas.

We still think that 2021 will be a good year for Blue Star. It is, after all, developing a helium project, not oil or gas projects, and helium is one of the 35 minerals that the US Department of the Interior included on its list of minerals deemed critical to America's national security and economy in May 2018. And, as far as we can tell, the helium shortage is not going away. Four stars.

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