



Resources

Stocks Down Under

🗨️ *If you want a happy ending, that depends, of course, on where you stop your story.* 🗨️

- George Orson Welles (1915 – 1985), American actor and director

GALAN LITHIUM

The Dead Man lives

TIETTO MINERALS

3 million ounces of gold,
and climbing

INVESTIGATOR RESOURCES

The face that could
launch a thousand drill
rigs

GALAN LITHIUM

The Dead Man lives

Stocks Down Under rating: ★★★★★

ASX: GLN
Market cap: A\$ 206m

52-week range: A\$0.11 / A\$0.875
Share price: A\$ 0.83

If you want evidence that lithium stocks are back in favour in 2021, look no further than the Perth-based Galan Lithium, whose main lithium project is high up in the Andes in northern Argentina. Galan Lithium stock was changing hands at just 11 cents back in early November, but by 27 January it had reached 64 cents after a very positive Preliminary Economic Assessment.

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TIETTO MINERALS

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ASX: TIE
Market cap: A\$ 130M

52-week range: A\$0.275 / A\$0.765
Share price: A\$ 0.29

In just a few short years, aspiring gold junior Tietto Minerals has expanded its resource at its flagship west African Abujar Gold Project to more than 3 million ounces and that could get another update this year as drilling and exploration continues. The company has made a name for itself in the under-explored Ivory Coast thanks to an almost continuous gold-hitting news flow and that doesn't look like stopping now that Tietto is targeting multiple prospects. The serious work is still to come, with the company on track to complete its Feasibility Studies later this year.

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Investigator Resources is hitting all the right notes in 2021 after kicking off the PFS at its flagship Paris Silver Project, located 60 km northwest of Kimba on South Australia's Eyre Peninsula. Although the company focuses on silver, copper and gold, it's silver's resilience combined with Paris' consistently high-grade mineralisation that keeps investors excited. But since it is still early days for one of the few primary silver projects, Investigator will have to rely on more than just silver's resilience.

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Share price chart



Source: Tradingview

How would you like to have been a Galan Lithium shareholder in August 2019? Your company has a promising lithium brine project on the Hombre Muerto salar in Argentina's Catamarca province. The salar may have an unfortunate name (Hombre Muerto means Dead Man in Spanish), but it does have the highest lithium grades and the lowest impurity level of any other lithium-prospective salar in Argentina. Right next door, the Fenix lithium operation has been steadily producing for FMC (now Livent, NYSE: LTHM) since 1997, while Galaxy Resources (ASX: GXY) is saying good things about its Sal de Vida project. Now, Galan is getting ready to report a maiden resource estimate. Then suddenly, virtually without warning, the people of Argentina indicate that they want to replace their current, market-friendly President with a leftist. The peso crashes, as does the nation's equity market. Do you sell your Galan stock, crying for Argentina and how the next Juan Peron will make Hombre Muerto a Muerto Lithio Proyecto? Or do you hold?

A great place (really) to produce lithium

The right decision, in retrospect, was to hold. Galan stock had been 19 cents on 23 July and it did get to 15.5 cents by 28 August 2019, but there was no crash. All Argentina had done in August 2019 was conduct primaries where the leading candidate of the left, Alberto Fernandez, got noticeably more votes than the incumbent right-wing and market-friendly President Mauricio Macri, in office since 2015.

The market was horrified more because Fernandez's running mate was Cristina Fernández de Kirchner, Macri's predecessor as President from 2007 until 2015 and perceived to be very anti-market. Fernandez and Kirchner won the general election in October 2019, but indicated before and after the vote, they wanted to support the lithium industry because Argentina needed foreign exchange and investment. The smart money was watching closely and in January 2020, Ganfeng, a Chinese company and one of the world's leading lithium manufacturers, showed up on Galan's register.

The world will need a heck of a lot more lithium in 2030 than it consumes today, which puts Hombre Muerto's location in the so-called Lithium Triangle into the spotlight. The point where Chile, Argentina and Bolivia converge is famous for those 'salars' we've been talking about – dry salt lakes where, below the surface, there are ample resources of lithium brines that can be tapped at relatively low cost. Brine is simply salt water and the brines trapped in underground reservoirs up in the Andes have high concentrations of lithium carbonate. Lithium brine projects here are so cost-effective because it barely rains, meaning the sun can get you starting material to produce battery-grade lithium once the brines have been moved into evaporation ponds. This makes it so the brine pumps don't cost much to run. Now you know why the South Korean steel giant POSCO paid US\$280m to Galaxy Resources in May 2018 to acquire tenements just north of Sal de Vida where the JORC resource at the time was 2.54 million tonnes of LCE, that is, lithium carbonate equivalent.

A billion-dollar project – just ask the Koreans

Since mid-2019, Galan has made substantial progress at Hombre Muerto. From an initial March 2020 resource estimate of 1.08 million tonnes of LCE, Galan had 2.95 million tonnes by November 2020, grading a massive 858 millilitres of lithium for every litre of brine. Galan has various project areas on the salar, but the one it wants to focus on is Muerto Hombre West, which now has 2.27 million tonnes of LCE grading 946 mg/L.

Just before Christmas 2020, Galan reported the results of a Preliminary Economic Assessment (PEA) for Hombre Muerto West that looked at a 40-year operation producing 20,000 tonnes of battery-grade LCE a year. Producing at a very low US\$3,500 a tonne, Galan reckoned that operation had a pre-tax NPV of US\$1.01bn at an 8% discount rate once US\$439m in capital costs had been sunk. That prompted the re-rating we noted above. However, that only took Galan's market capitalisation up to about \$150m, a fraction of the upside suggested by the 2020 PEA and the 2018 POSCO deal.

El litio ha vuelto (Lithium is back)

Is there an 'Argentina discount' built into this stock? Possibly. To some US\$439m may seem like a lot to sink into Alberto Fernandez's Argentina, a country wherein 2020 the government seriously considered expropriating Vicentin, a privately owned grain exporter, before backing down. That said, Vicentin was in bankruptcy proceedings at the time. More importantly, the government's commitment to supporting the lithium industry is solid, as evidenced by the fact that other companies like Orocobre (ASX: ORE) have continued to operate there without issue since Fernandez took office.

The real driver for Galan going forward will be the price of lithium. This has been on the mend in recent days, reflecting renewed demand from battery makers as the Electric Vehicle industry roars out of the 2020 Global Recession. With Galan sitting on a large, low cost project and trading well below the value of that project, this one is four stars in our book.



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Share price chart



Source: Tradingview

West Africa's next gold miner

The Perth-based West African gold explorer continues to supersede its previous positive gold results at Abujar, which is 30 km from the major city of Dolea in central-western Cote D'Ivoire. In October, the company announced a 40% increase in its mineral reserve, up from 2.5 million ounces to 3.02 million ounces. This is largely focused on the high-grade Abujar-Gludehi (AG) deposit at the centre of the proposed open-pit mine development, but also encompasses the Abujar Pischon, Golikro and South Gamina prospects. Tietto's exploration to date has identified three mineralised corridors along Abujar's 70 km strike over three tenements, with a defined total of 33 prospects. Those corridors only make up 10% of the overall strike zone.

The company is cantering ahead with its 28,000-metre infill drilling program at AG (with 60% complete) as well as its 80,000-metre exploration targeting new prospects over its three tenements at Abujar South Abujar Middle and Abujar North. And Tietto keeps coming up with the goods, this week intercepting up to 118.29 g/t gold at AG. So far, 56 holes have been drilled at AG, with more drilling planned to test the depth of the gold

corridor. The company is also waiting on 5,000 assay results with another resource upgrade on track for the second quarter. The company's Pre-Feasibility and Definitive Feasibility Studies are on track for release this year.

The new frontier for gold

Abujar's potential is part of the Cote D'Ivoire wider success story. It wasn't so long ago that the country was embroiled in conflict, but since that ended the new government has concentrated on expanding the nation's economic base beyond agriculture. That means that there is suddenly untapped sources of gold waiting to be unlocked. The extensive Birimian Greenstone Belt is believed to hold more gold than neighbouring Ghana and that bodes well for Tietto's exploration activities now that it has substantial government support. Since the first drill holes in 2018, Tietto has grown its resource from 0.70 to 3.02 million ounces and that is set to get better with the aggressive drilling program to drive resource growth as part of the PFS.

Despite the strong momentum, the fact that the Ivory Coast's gold mining industry is largely in its infancy also means that Tietto and other incoming explorers have a long road ahead of them. Fortunately for the company, its new chief operating officer, Matthew Wilcox, has experience navigating the west African gold mining industry. His resume includes managing the construction of West African Resources' 2.6 million tonne Sanbrado Gold Mine in Burkina Faso, currently producing ahead of schedule and under budget. Tietto has so far managed to keep its drilling costs low (about US\$35 per metre) given its list of 33 drill prospects throughout the three tenements after purchasing its own rigs (and saving about US\$11.5 compared to contract prices), but the real costs will be known once the PFS is completed.

Get hype

In order to become West Africa's next gold miner, Tietto is ironing out the terms and conditions of Abujar's Project Mining Convention, including the tax and fiscal agreements with the government, to be finalised in the first half of this year. Even though the Feasibility Study is ongoing, the company has already received its Mining Licence and Environmental and Social Impact Assessment (EIA) approval, such is the governments haste to see gold projects in production. While tax rates for miners in the Ivory Coast are fairly high (25% tax rate and 5% government royalty), Tietto's low drill costs and cash balance of \$57m should keep the company well-funded for its exploration activities a little longer.

There's only one downside for Tietto at the moment as far as well can see – gold has been out of favour. That has meant the stock has progressively trended back since July 2020. However, we think that's nothing a good feasibility study can't change. All in all, the company's rapid growth, strong balance sheet and high-grade resource at Abujar highlights the emerging opportunity in the Ivory Coast that could bring in others to explore the area. That may also act as an advantage for Tietto if any majors come looking. For investors cognisant of gold's lack of appeal over the last nine months, and with a bit of patience, Tietto is a four star opportunity. For everyone else, Tietto deserves three stars until the next big news story.

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Share price chart



Source: Tradingview

Why'd they name it after that guy?

Investigator Resources is proof that mineral explorers can also be people of high culture. You see, the Paris Silver Project, now one of Australia's highest-grade undeveloped silver deposits, was named not for the French capital, but for the Trojan rogue who made off with Menelaus' wife and started that 12-year war. You know, the girl with the face that could launch a thousand ships.

But we digress...Paris is a deposit silver bugs needs to pay attention to. Right now, they've got 9.3 million tonnes at 139 g/t silver and 0.6% lead (for 42 million ounces of silver and 50,000 tonnes of lead), but last year Investigator commenced a 20,500-metre infill drilling program on the northern edge of the central zone with the aim of improving the resource grade. That programme yielded significant high-grade intercepts, including 755 g/t silver from 52 metres. These results came at a good time for Investigator as silver moved away from gold's shadow, with a current price of US\$25 per ounce. The company's share price has also felt the positive sentiment, rising to a high of 12 cents in early February.

Infill drilling in the southern region has continued in 2021, with a few more high-grade hits, but the company has so far only received assays from 20% of the northern infill program. Investigator expects more results in

April with a potential resource upgrade in May. The company completed its current resource upgrade back in 2016 and has seemingly waited for a safer silver price before delivering a Pre-Feasibility Study (PFS) to investors. Given that a resource upgrade is expected, the PFS will expand on Paris' potential as an open-pit mine due mid-year.

Beyond Paris, Investigator has its eye on three promising deposits, called Argos, Xanthos and Helen, located very nearby (and, yes, Helen is named after Paris' mistress). With Argos' magnetic structure falling directly along Paris' strike, this project could end up considerably bigger than the PFS suggests.

Paris could be the hero in this story

Paris is an odd name for silver bonanza in the making. After all, if you've read your Homer, Paris was always in the shadow of Hector and then Achilles. Although silver is a highly valued safe-haven investment, it tends to shadow gold's momentum, rising in price during volatile market conditions, but in a much more unpredictable way. The rarity partially informs the imbalance between the price of silver and gold (or the gold-silver price ratio), but according to the Silver Institute, there are very few primary silver projects in the world and there is an overall decline in silver production and grades, leaving silver as a recovery by-product subject to the trends of other rare metals.

That puts Investigator (and Paris) in an unusually good position now that Ag is beginning to compete with gold during its bull run. At the height of the pandemic, silver outperformed gold's 38% price increase by climbing 137% to a seven-year high of US\$28 per ounce in August. While that could just be the natural outcome of a volatile year – it was technically a recession, after all – there are signs that silver has a strong 2021 outlook on the back of those declines. The Silver Institute also predicts that silver demand will climb to 23 million ounces by 2030 to feed the ramp-up in 5G technology, renewables and med-tech, to name only a few future applications.

Silver's volatility is Paris's Achilles Heel

As silver is necessary for more than just jewellery and silverware, the world could use a few more primary silver deposits like Paris, although the company still has the hardest part in front of it. The rising silver price has already directly benefited Investigator. Through the confidence of its investors, it raised \$8m in July last year to help guide the PFS to its completion sometime in June. But as with all commodities, the high times could easily be short-lived. And while some analysts believe silver has never had a better future, others are sceptical of its correlation to today's recession. This is not the first time silver has done this – it also spiked after the GFC recession, to US\$45 per ounce in 2011, before falling back to US\$17 in 2013. We first wrote about the unusual economics of silver in *Stocks Down Under* on 26 June 2020 when talking about another silver project developer called Silver Mines (ASX: SVL).

Whether silver north of US\$25 an ounce is a short-lived phenomenon or not, a positive PFS report isn't going to put a dampener on Investigator's plans for Paris. But before it can use its vast cash reserves (a safe \$13m) to get Paris to pay up, Investigator has to announce its revised mineral estimate, pit/plant design and operating costs first. For investors cognisant of this campaign in the light of a volatile silver price, we believe Investigator Resources is four stars.

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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.

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