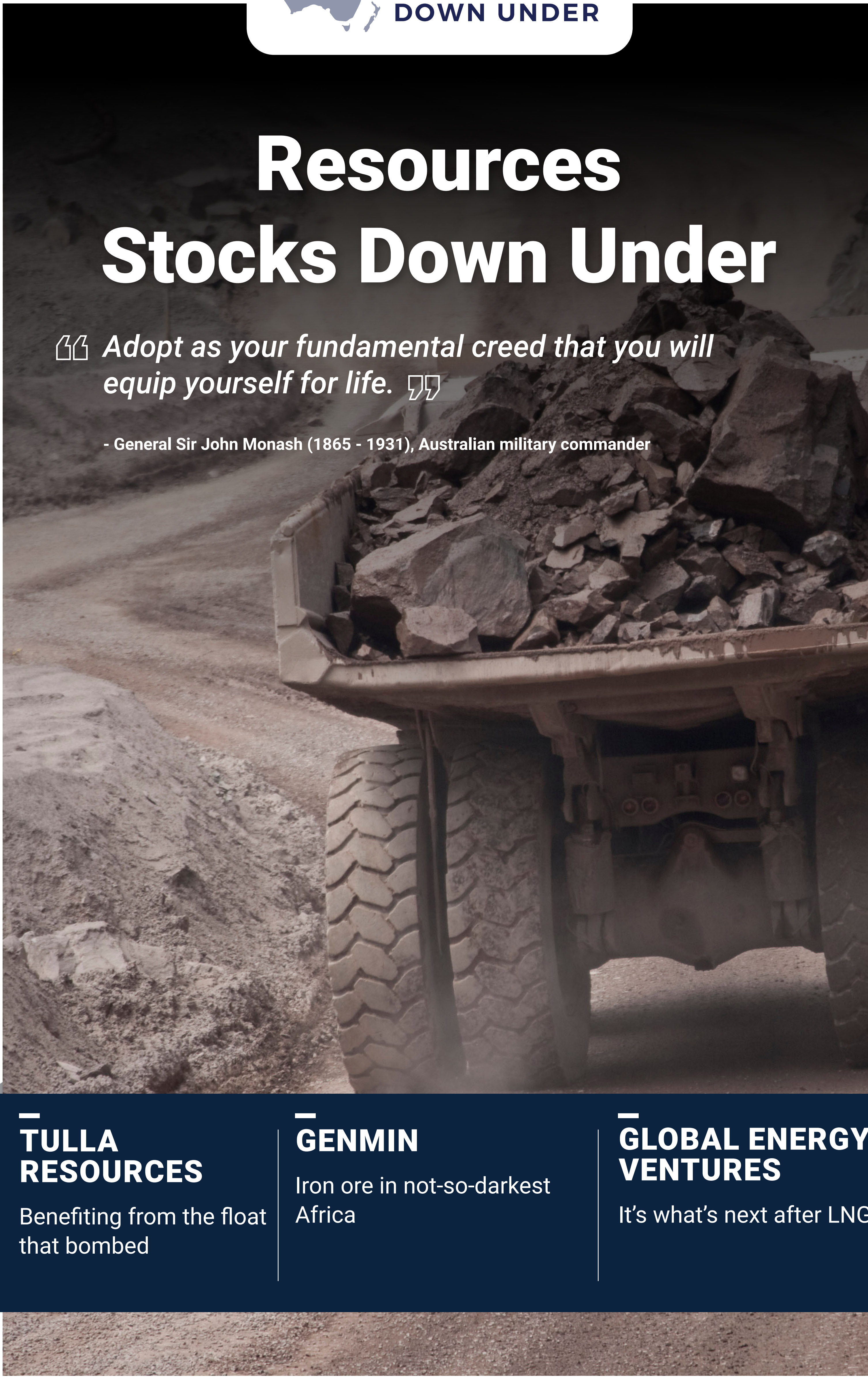
STOCKS DOWN UNDER

6 MAY 2021



Resources Stocks Down Under

"Adopt as your fundamental creed that you will equip yourself for life."

- General Sir John Monash (1865 - 1931), Australian military commander

TULLA RESOURCES

Benefiting from the float that bombed

GENMIN

Iron ore in not-so-darkest Africa

GLOBAL ENERGY VENTURES

It's what's next after LNG

TULLA RESOURCES

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Stocks Down Under rating: ★★★★

ASX: TUL
Market cap: A$ 148M

52-week range: A$0.45 / A$0.69
Share price: A$ 0.53

Tulla Resources recently went public on the ASX to develop its Central Norseman Gold Project in Western Australia. The company priced its IPO at 90 cents and was able to raise $78m. However, the stock started listed life on 18 March 2021 at just 69 cents and it has since been as low as 48 cents. We think contrarians can do well on this one given the large resource base being worked on at Central Norseman, the project's advanced nature and the low capital costs.

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The Perth-based Genmin, owns several iron ore projects in the African country of Gabon. The company started trading on the ASX on 10 March 2021 after an IPO at 34 cents, raising $30m. The stock has yet to surpass 34 cents, but a successful Preliminary Feasibility Study on the largest project, called Baniaka, could change all that. Baniaka benefits from infrastructure that can make it relatively easy to develop this resource.

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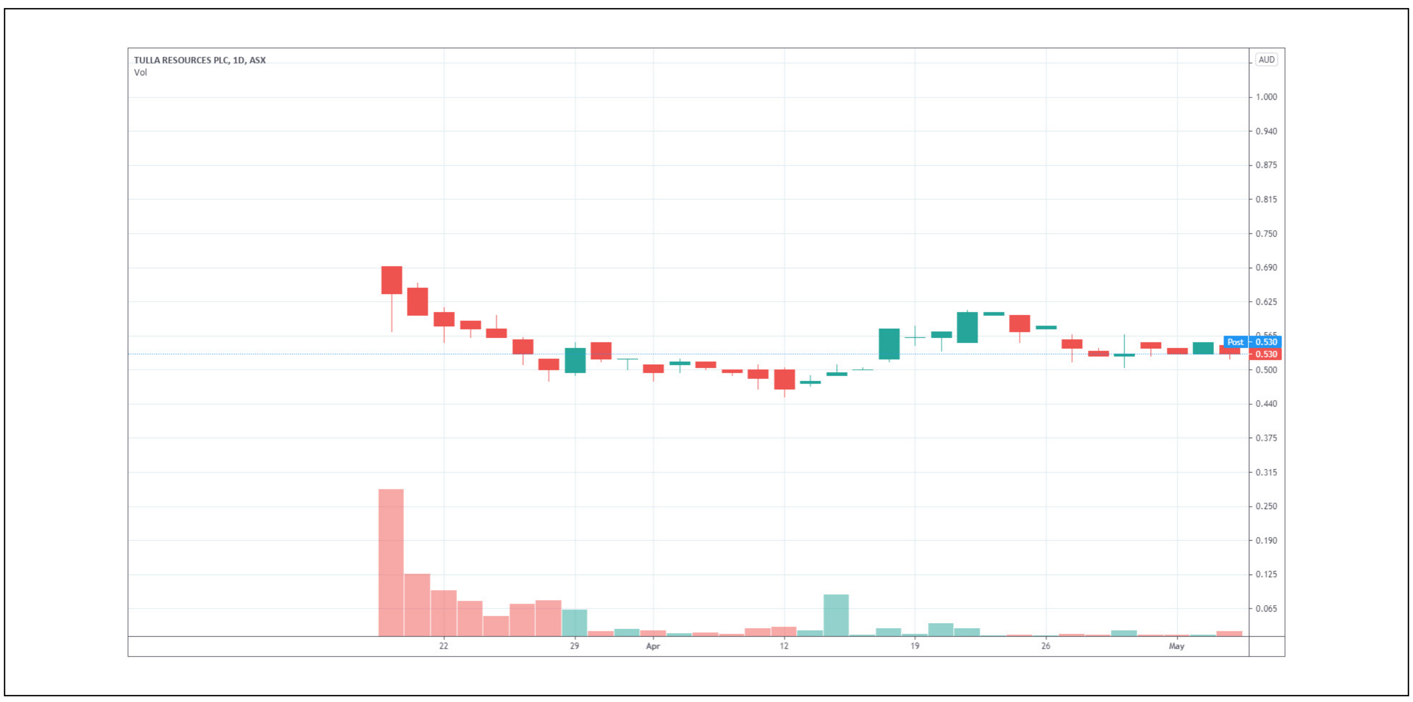
Share price chart



Source: Tradingview

If ever you visit the town of Norseman, WA, make sure you check out the statue of its 'founder', a horse called Hardy Norseman, in Welcome Park. Legend has it that the horse pawed up the first gold nugget at Norseman in 1894 after his owner, prospector Laurie Sinclair, tethered him overnight while passing through the town. Just like another legendary horse called Ramelius, which we wrote about in Stocks Down Under on 1 February 2021.

The Maloneys bring Norseman back from the dead

Norseman, where the Coolgardie-Esperance Highway meets the Eyre Highway in WA's Eastern Goldfields, is soon about to have a lot more nuggets dug up, but by people this time. That's because of the Central Norseman Gold Mine, which Western Mining commissioned in 1935. This mine was so rich it stayed in production until 2014 after about 5 or 6 million ounces. Western Mining stuck around until it sold in 2001, but when its last owner, Norseman Gold plc, landed in administration in 2012, it was the Sydney-based Tulla Group that got control of the company, recapitalised it, and renamed it Tulla Resources.

Tulla Group is the Maloney family of Sydney, who made their money when the MAC Services Group, Australia's largest publicly traded mining accommodation and services company, was sold for about A$650m in 2010. The attraction of the Maloneys to Central Norseman was the millions of ounces still unmined and the existing mine infrastructure when gold was out of favour during the 2012-2016 downturn. The Maloneys are clearly patient people.

A low-cost resurrection

We first wrote about the Central Norseman Gold Project in Stocks Down Under on 28 April 2020. At the time we were looking at Pantoro (ASX: PNR), which farmed into the project in May 2019 and has now earned a 50% project interest. The two companies now share a resource base of 4.2 million ounces (35.0 million tonnes at 3.8 g/t) spread across multiple open pits and underground deposits. It's a great bet, as an October 2020 Definitive Feasibility Study makes clear.

This Definitive Feasibility Study relates to 'Phase One' of the Central Norseman restart, where a fraction of the resource will be used in a small scale operation priced at just $89m in capex. The new Central Norseman won't be huge, averaging only 108,000 ounces a year for seven years. It will, however, be a high margin operation, with an All-In Sustaining Cost (AISC) of A$1,292 an ounce, which is US$989. That's achieved primarily by the choice of ore sources, with only four historic mines - Scotia and OK, to be followed by Cobbler and Gladstone - to be tapped during this period to feed ore to a 1 million tonne per annum plant.

We like the fact that Phase One allows Central Norseman to restart at a relatively low cost and within the financial resources of both companies. At this stage, the plan is to resume production at Norseman around the middle of 2022. The post-tax NPV on Phase One for the owners was A$260m and the estimated payback period is just 13 months.

Plenty of excitement to come

Central Norseman may be a good bet on those numbers, but Tulla Resources has listed during a period in which gold was out of favour, hence the poor performance in the aftermarket. That's a little understandable - the Phase One DFS was calculated on a gold price of A$2,600, which is US$1,900, something gold last saw in August 2020. That said, we were surprised at how badly the stock behaved. After all, Tulla did attract the renowned Canadian mining entrepreneur Robert Friedland onto the register and this man has a touch even more golden than Hardy Norseman and Ramelius, having given the world Voisey's Bay and Oyu Tolgoi, among other monster discoveries.

We don't think gold's current weakness should deter investors from watching Tulla closely. Remember, only 30% of the resources was even considered for this initial Phase. The next Phase takes Central Norseman a lot further, with Scotia likely to be expanded. The Mainfield, Polar Bear and Buldania deposits will potentially be added to the plant feed at a later stage of the journey. Then there's the exploration upside, with the Princess Royal, Slippers and Maybell deposits to be evaluated with further drilling in the near term.

We think Central Norseman can continue to generate a lot of excitement even before gold turns around and heads towards US$10,000 an ounce. If you want proof of that, look no further than the 22 March 2021 announcement where a deposit called Green Lantern returned some excellent drill intersections not far from Scotia. Here the mineralisation started at surface and went all the way down to 250 metres with results like 11 metres at 2.53 g/t from 93 metres and 14 metres at 2.32 g/t from 56 metres. If you're a gold bug and you like the sound of that, stick with the Maloneys and other patient investors for exploration upside ahead of the restart. Four stars.

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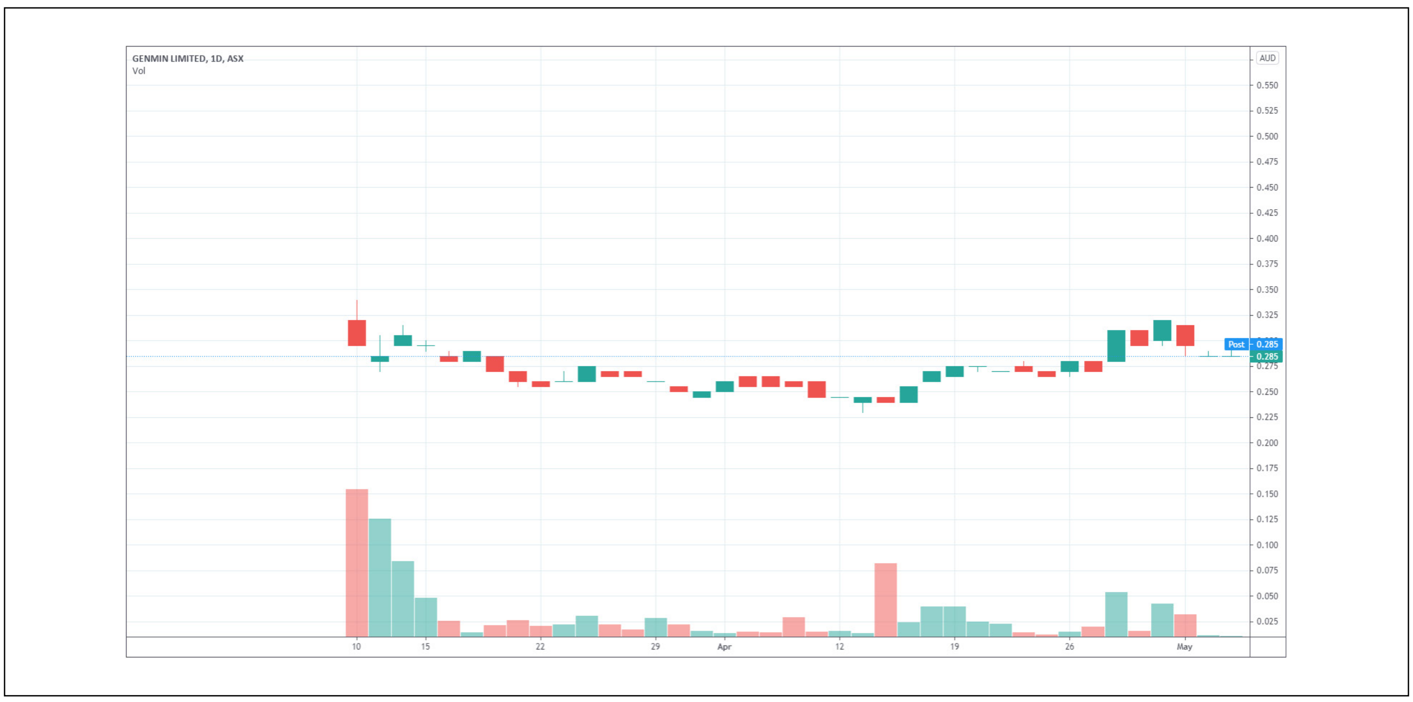

Source: Tradingview

Here's a great question for the next pub trivia competition you organise, almost guaranteed to make sure no one takes home the meat tray: What is the capital of Gabon? The competitors might find it hard to find Gabon on the map, let alone name its capital, since nothing ever happens in Gabon to make the evening news here in Australia. One competitor who would know the answer is Chris Ellison, the billionaire Perth iron ore magnate, because when Genmin went public on the ASX on 10 March the Mineral Resources founder was a Top 10 shareholder and Genmin reckons its company-making iron ore project can be found in Gabon.

Genmin was founded in 2013 by Joe Ariti after he had sold African Iron to South Africa's Exxaro Resources for A$338m in 2012. African Iron had hustled up that value through an iron ore project called Mayoko, in the Democratic Republic of the Congo. Ariti believed that his next company-maker could be found in Gabon and he has spent the last eight years on that thesis. Genmin went public with three iron ore projects in Gabon covering 5,500 sq km and backing from Tembo Capital, the London-based private equity firm that focuses on junior and mid-tier mining companies.

Next stop Gabon

Gabon is a sovereign nation on the west coast of Africa, right on the Equator and only the size of the US state of Colorado. Gabon's neighbours are Equatorial Guinea and Cameroon to the north and the Republic of the Congo – not the DRC, which used to belong to Belgium, but 'the other Congo' that was a French colony – to the east and south. The capital is the port city of Libreville. The population is only 2.3 million people. Today, the country is a major oil producer, which means it has one of the highest per capita income levels in Sub-Saharan Africa. Gabon is also the world's second-largest producer of manganese and if Genmin gets its way, Gabon will become the world's next major iron ore exporter as well.

All the infrastructure you need

Why Gabon? Because it had iron ore deposits and an important piece of infrastructure. If you find a decent map of Gabon you'll likely see a town near the Congo border called Franceville. Genmin's flagship Baniaka Iron Ore Project covers 881 sq km to the south of the town. In the 1970s and 1980s Gabon built the 670 km Trans-Gabon Railway from Franceville to Libreville. Here in Australia many companies have rich iron ore deposits that are stranded for want of railway lines to get the iron ore to a port. Joe Ariti never had that problem with Baniaka, because the Trans-Gabon Railway was set up as a heavy haulage railway with iron ore and manganese in mind. Joe also didn't have to worry about adequate port facilities because in 2017 Gabon had commissioned a substantial mineral export terminal at Owendo, not far from Libreville in the co-called 'GSEZ', the Gabon Special Economic Zone. Owendo is the terminus of the Trans-Gabon Railway.

Baniaka's current JORC-compliant resource is 257.9 million tonnes at 40.1% iron. Genmin reckons it can take the higher-grade 'detrital iron deposits' at the top of the Baniaka resource as well as the similarly high grader oxide zone underneath that and create a mine producing >60% Fe Direct Shipping Ore that could be worked for about ten years. The company intends to use part of the $30m from the IPO to complete a Preliminary Feasibility Study on Baniaka with this in mind. Baniaka, however, can get a lot bigger than that. Only about a fifth of the Baniaka deposit has actually been drilled by Genmin or its predecessor explorers. Throw in a second project about 80 km away, called Bakoumba, which covers 1,836 sq km, and potentially you've got the makings of a large iron ore hub. Another part of the IPO proceeds will also go to resource definition drilling at Bakoumba.

China needs what Joe's got to sell

Why bet on Genmin's Gabon projects ultimately getting up? Genmin reckons China's ongoing iron ore needs may have something to do with its future success. China makes no secret of its desire to source more iron ore from mines that its companies control and, indeed, its stated goal as per a five-year plan published by the Ministry of Industry and Information Technology in January 2021 is to get this figure to 45% by 2025.

Like many countries in Africa, Gabon will likely be more open to Chinese investment than countries like Australia or Brazil will be in the future. That puts Genmin in the box seat to get its Baniaka/Bakoumba hub funded and operational over the next few years. It also mitigates against a potential deflation in the iron ore price in the near term. It's early days for Genmin as a listed company. However, with 2021 likely to see some progress in terms of moving Baniaka forward, we rate this one four stars.

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Share price chart

Source: Tradingview

From its formative years in the 1960s, LNG has grown into a huge industry. And no wonder. Once upon a time a gas-poor country could only get that clean and reliable fuel with pipelines from countries that had it, but who could also turn those pipelines off at will. LNG changed the game so that all you needed was ports to dock and unload the LNG tankers coming from wherever. In recent years global LNG trade has been growing robustly. In 2019 it was something like 355 million tonnes as against 219 million tonnes in 2010. However, the capital costs of an LNG project are hideously expensive, so only really big gas fields are suitable. Take Chevron with its Gorgon Project in WA, commissioned in 2016, as a good example. The 15.6 million tonnes of LNG capacity there cost $US54bn.

No need to freeze the gas

Global Energy Ventures reckons it can change the game with Compressed Natural Gas or CNG, where the gas is simply piped unfrozen into the hold of the tanker. People have been thinking about how to do that for a long time. In 2016 Maurice Brand, a Perth-based gas industry veteran, set out to make it a reality. Together with Garry Triglavcanin he got hold of an ASX-listed oil company, TTE Petroleum, in late 2016, changed its name to Global Energy Ventures and fully converted it into a CNG project developer by buying a Canadian company called SeaNG in late 2017.

By the time GEV got hold of SeaNG, that company had come up with what it considered the ideal CNG vessel design, which was a series of carbon steel pipes places horizontally in the vessel and stacked on top of each other, into which the gas could be compressed and stored at near-ambient temperatures. The key to getting this design to work was patented technology that prevented the pipes from rubbing together while at sea, which could damage the vessel itself. SeaNG called its design 'CNG Optimum' and GEV set out to commercialise a design that would hold 200 million standard cubic feet of gas in a ship just 190 metres in length. With such a ship you could transport 1.0-1.5 million tonnes of gas a year up to 2,000 km from export to import terminal, thereby unlocking all sorts of 'stranded' gas fields unsuitable for LNG or pipeline development.

CNG - we now have an approved design

Now, when anyone designs a new kind of marine vessel, the key to its use is having it approved by the American Bureau of Shipping (ABS). GEV obtained the all-important ABS approval for its CNG 200 Optimum ship in January 2019. The two years since then has seen GEV make a lot of progress marketing its CNG approach to owners of gas fields and potential importers of gas. The company now has two projects in Brazil on the boil to develop 'pre-salt' offshore gas fields (we wrote about how valuable the pre-salt is when looking at Karoon Energy, ASX: KAR, on 3 August 2020). GEV believes it can reach FEED-level acceptance (that is, use them in Front-End Engineering Design) by the field developers sometime this year. GEV is also working on a potential project in the US Gulf of Mexico. However, the biggest development for GEV since 2019 hasn't been for natural gas. It's been for hydrogen.

You've probably been hearing a lot lately about hydrogen as a green, cheap and efficient fuel source that we'll be using more of in the future. Well, GEV is now in that game as well after announcing late in 2020 that it had designed and patented a compressed hydrogen ship called the C-H2 for which it was seeking ABS approval. No company had ever created a compressed hydrogen vessel before. The upside, needless to say, is huge because hydrogen could one day rival gas in terms of the size of the industry given that hydrogen doesn't emit an ounce of carbon when you use it as fuel.

A hydrogen player

In early March 2021 GEV reported the results of a scoping study which suggested that seaborne hydrogen using its ships would be cost-competitive up to 4,500 nautical miles. That potentially makes GEV a big hydrogen player given the US$300bn in new hydrogen investments expected to be made in the next decade.

The GEV board clearly like where their company has got to in 2021. Brand and Triglavcanin were both recent on-market buyers of stock, as was fellow director Martin Carolan. With gas markets now coming back as the global economy recovers, we believe the timing is right for CNG.

And now with GEV's smarts established in hydrogen, it is likely to attract a lot of attention. With $6.3m in new funding obtaining in February at 10 cents, the company has enough cash for the next little while. We therefore view GEV the same way Brand et. al. do, that is four stars.

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.

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