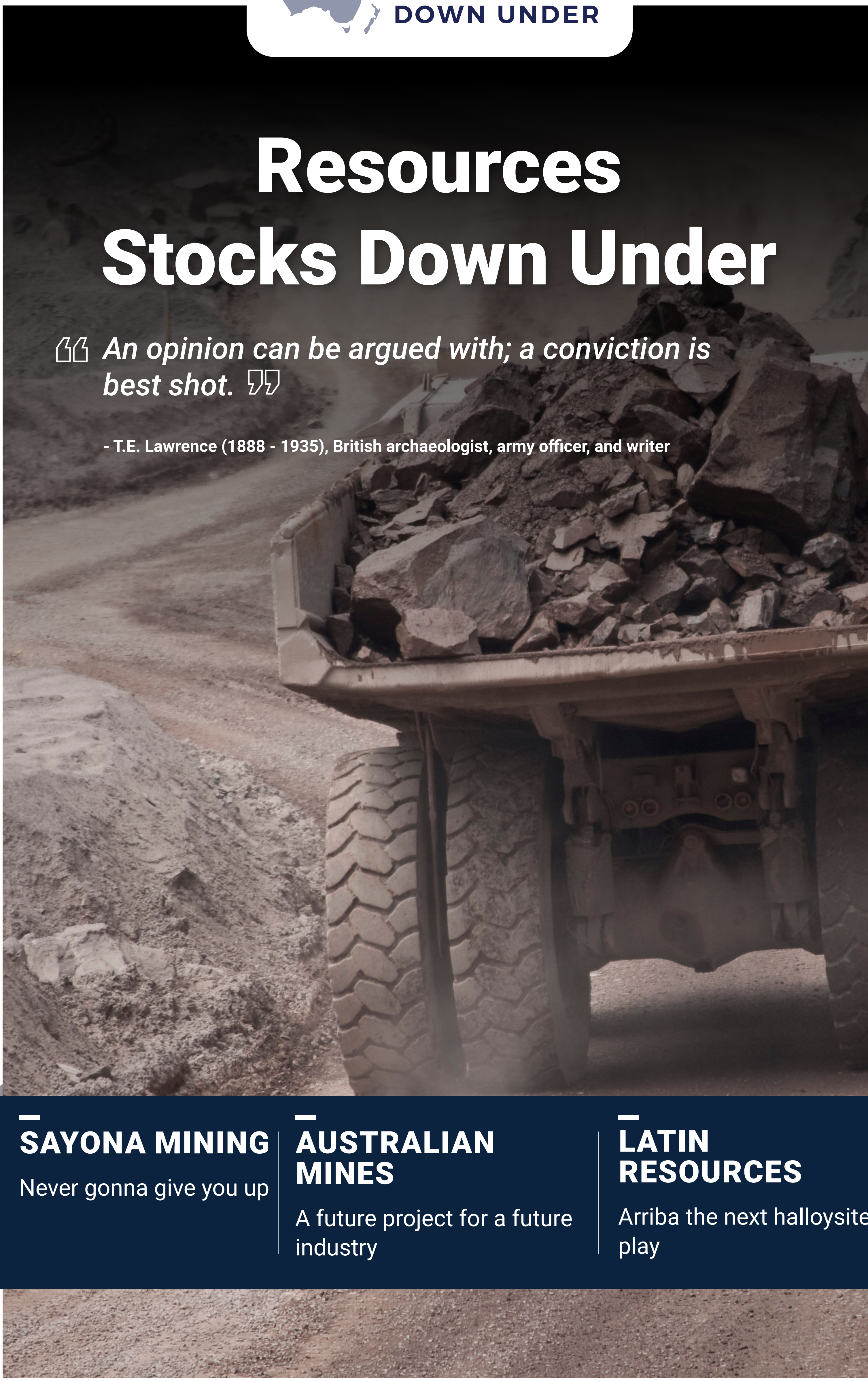
STOCKS DOWN UNDER

17 JUNE 2021



Resources Stocks Down Under

> *An opinion can be argued with; a conviction is best shot.*

- T.E. Lawrence (1888 - 1935), British archaeologist, army officer, and writer

SAYONA MINING

Never gonna give you up

AUSTRALIAN MINES

A future project for a future industry

LATIN RESOURCES

Arriba the next halloysite play

SAYONA MINING

Never gonna give you up

Stocks Down Under rating: ★★★★

ASX: SYA
Market cap: A$ 329M

52-week range: A$0.005 / A$0.072
Share price: A$ 0.064

Working out of Canada and Australia, emerging lithium miner Sayona Mining stuck to its guns through the bad days of lithium and stood by its flagship Authier Project in Quebec, which is now attracting a lot of attention in the lithium market. With the resources to grow its asset base further, Sayona hopes to effect some change in the emerging North American supply chain, with the help of its new friend Piedmont Lithium.

READ MORE

AUSTRALIAN MINES

A future project for a future industry

Stocks Down Under rating: ★★★★

ASX: AUZ
Market cap: A$ 111M

52-week range: A$0.007 / A$0.04
Share price: A$ 0.025

Australian Mines may have one of the more boring names out there, but its ambition to change the Electric Vehicle industry in Australia makes it far from boring. Focussed on developing its flagship (and high-value) Sconi Project in Queensland, the company has recently renewed its product development strategy to support the needs of Electric Vehicle and battery manufacturers. The result may be a much higher payback for AUZ and the improved downstream production of battery grade minerals.

READ MORE

LATIN RESOURCES

Arriba the next halloysite play

Stocks Down Under rating: ★★★★

ASX: LRS
Market cap: A$ 72.5M

52-week range: A$0.003 / A$0.10
Share price: A$ 0.052

This company's name may be Latin Resources, but the action isn't really in Latin America anymore – it's at a place called Merredin in the Western Australian Wheat Belt. Not far from Merredin, Latin Resources is in a Pre-Feasibility Study with its Noombenberry Project evaluating this project's chances to produce high-value kaolin and halloysite. The high grade of parts of the Cloud Nine deposit suggests a big payday is coming.

READ MORE

SAYONA MINING

Never gonna give you up

Stocks Down Under rating: ★★★★

ASX: SYA
Market cap: A$ 329M

52-week range: A$0.005 / A$0.072
Share price: A$ 0.064

Working out of Canada and Australia, emerging lithium miner Sayona Mining stuck to its guns through the bad days of lithium and stood by its flagship Authier Project in Quebec, which is now attracting a lot of attention in the lithium market. With the resources to grow its asset base further, Sayona hopes to effect some change in the emerging North American supply chain, with the help of its new friend Piedmont Lithium.

Share price chart

Source: Tradingview

Sourcing the materials of the future, today

Project Authier – pronounced 'Oh-tee-ay' because it's in Quebec – is 45 km northwest of the city of Val d'Or, historically a mining centre, and 466 km north-east of Montreal. At the start of January, Sayona commenced a $2m 4,500 metre drilling program covering both Authier and the emerging Tansim lithium project 82 km to the south-west to expand on the current resource base of 20.94 million tonnes at a lithium grade of 1.01%. Sayona will also build on the previous DFS completed in 2018 and revised in late 2019, which highlights a low-cost, near term spodumene production of 114,000 dry tonnes per annum for a 13-year mine life. The DFS revision showed a Net Present Value of C$216m at an 8% discount rate and has an Internal Rate of Return of 33.9%.

Sayona is hoping that Authier and Tansim can collectively become part of a much bigger picture, where ethically-supplied and suitably-provenanced lithium from northern Quebec becomes preferred material for the emerging giga factories on both sides of the St Lawrence.

You'll recall that we wrote about Piedmont Lithium (ASX: PLL) in this publication on 30 January 2020. That company has now hit the big time as a would-be lithium supplier because of its project's ability to leverage off that theme. In January, Sayona secured a strategic partnership with Piedmont that involved a US$12m investment by that company as well as an offtake deal for 60,000 tonnes spodumene. The company also has a deal with battery maker Novonix (ASX: NVX – see our 18 June 2020 article) that will test Authier's product potential for use in 99.97% purity-grade lithium hydroxide batteries. Lastly, Sayona is currently completing a bid for another lithium operation next door at North American Lithium that it believes will well and truly vault it into the Big Time.

A bigger piece of the action through Piedmont and Tesla

Sayona's big advantage with Authier isn't just its proximity to the giga factories in a part of Canada known to be mining-friendly. The company will also benefit from the low-cost and sustainable hydro-electric power Quebec is famous for, as well as the province's pro-EV stance. Authier also has some equally prospective (and tight-knit) neighbours, which helpfully includes Musk Metals' Elon Lithium Project only 30 km to the east.

Sayona's current expansion program at Authier is impressive considering both the fight for acreage around Val d'Or as well as the fact that the company acquired the project in 2016 just before the lithium price fell to pieces. Although difficult in the short term, Sayona figured Canada would be amenable to establishing its own lithium supply chain to support the inevitable EV revolution once lithium was back in play, whenever that would be.

And while it looks like the company was right, it's worth noting again that both Authier and Tansim are prospective sources of lithium for the emerging US market. Now that Piedmont has invested US$5m in cash for a 25% stake in the Quebec company and US$7m to take a 19% stake in Sayona itself, Sayona is suddenly playing a major part in Piedmont – and Tesla's – supply commitments, and that's before any sign of first production.

Piedmont wants to take at least 50% of planned spodumene production from Authier, or 60,000 tonnes a year, whichever is greater. However, the partnership with Piedmont combined with local support should also give the company greater leverage in its bid for the aforementioned North American Lithium. NAL covers around C$400m that was historically invested in a lithium mine and concentrator as well as the beginnings of a lithium carbonate processing plant before the operation was placed in bankruptcy protection in mid-2019. That C$400m will undoubtedly allow Sayona to grow a lot bigger than it is now, if it is successful.

Laissez les bons temps rouler pour Sayona

While Sayona can still be proud of what it has achieved at Authier/Tansim, everyone is going to be disappointed if that project can't integrate into NAL, because that gives the operation the capacity to produce 200,000 tonnes lithium hydroxide a year. And a much better chance of addressing North America's soon-to-be-voracious demand for lithium hydroxide. Following a deal with one of NAL's major creditors in late May, but subject to the conclusion of definitive agreements, the Sayona/Piedmont proposal to acquire North American Lithium is expected to go before Quebec's Superior Court for approval in the near future.

While everyone waits for that decision, Sayona can rely on its oversubscribed renounceable rights issue, which raised A$21.9m to support its exploration activity in Quebec. The company is reviewing its Western Australian Mt Edon Lithium and Corkwood Graphite projects, since Quebec is proving to be a much better outlook for the company's hub strategy, with three potential mines in the making surrounded by a rapidly developing battery industry. Four stars for the turnaround, with room to move if the NAL acquisition comes through.

AUSTRALIAN MINES

A future project for a future industry

Stocks Down Under rating: ★★★★

ASX: AUZ
Market cap: A$ 111M

52-week range: A$0.007 / A$0.04
Share price: A$ 0.025

Australian Mines may have one of the more boring names out there, but its ambition to change the Electric Vehicle industry in Australia makes it far from boring. Focussed on developing its flagship (and high-value) Sconi Project in Queensland, the company has recently renewed its product development strategy to support the needs of Electric Vehicle and battery manufacturers. The result may be a much higher payback for AUZ and the improved downstream production of battery grade minerals.

Share price chart

Source: Tradingview

That's a good deal for someone

Sconi is a nickel-cobalt-scandium project at Greenvale, 250 km west of Townsville in north Queensland. At the current pre-development stage, AUZ is progressing its offtake and funding activities with potential partners and the ongoing discussions seem to highlight Sconi's appeal: the project's updated mineral resource of 75 million tonnes can supply battery-compatible minerals (including manganese) over an initial 30-year mine life, supporting the production of 46,800 tonnes nickel sulphate, 7,000 tonnes cobalt sulphate and 74 tonnes scandium oxide per annum. AUZ has been able to maintain high grades of nickel and cobalt with this update.

The Sconi DFS presents a projected Net Present Value of $1.5bn (at an 8% discount rate) and an Internal Rate of Return of 20% for a total free cash flow of $5bn (or $13.27bn for 30+ years). Further south, the company is moving forward with one other nickel-cobalt-scandium project, called Flemington, near the town of Fifield in central NSW and a lead-zinc-silver project in the Broken Hill region of western NSW. Geophysical surveys have detected some add-on gold-copper porphyry near Fifield as well. Although Sconi's prospects are much brighter, AUZ's current share price is miles away from its January 2018 high of 14 cents when cobalt was riding high and Australian Mines was valued primarily for that metal.

Miner seeks offtake partner

Although we don't know who AUZ is talking to, the offtake discussions the company has been having tell us of a much bigger ongoing need for mineral and metal explorers to meet forecast EV demand, with more than one potential partner indicating it would need the equivalent volume of five Sconi Projects to meet their EV sales. That puts a lot of pressure on AUZ to unlock new sources of battery minerals, which is why the company has fought to deliver the resource upgrade at the Greenvale and Lucknow deposits. Further drilling and an optimised DFS are planned for later this year. This in turn will give AUZ a little bit more stability regarding a longer mine life and better optimised feed to play with, but the company needs that offtake agreement to complete its funding package and finance construction with capital costs reaching US$974m. AUZ previously had an agreement with South Korean battery manufacturer SK Innovation for 100% of production.

On the upside, those delays have propelled AUZ to re-optimise the old DFS model in line with current cobalt pricing and look closer at Sconi's potential to produce cathode precursor materials for nickel-cobalt-manganese (NCM) batteries, further capitalising on the needs of major EV manufacturers further down the chain. They're calling these cathode precursor materials 'P-Cam' – sounds kinda cool, don't you think? As Sconi's orebody has the requisite minerals and those manufacturers are increasing making deals directly with miners, the company sees the value in replacing the existing (and separate) cobalt and nickel production, instead going for NCM concentrate. The research largely backs that up, with P-Cam product in top NCM batteries attracting higher margins per kg than nickel or cobalt sulphates alone. This is not only about increasing profits, but meeting offtake partners in the middle while helping to lower the price of EVs and making that supply chain more efficient.

But will the company change its name?

To aid its plan, AUZ completed a scoping study in early June looking into the feasibility of a P-Cam production facility to replace the existing nickel and cobalt circuit. The numbers were good, with an NPV of A$352m at an 8% discount rate. A pilot P-Cam plant is now being build and is expected to be commissioned in August.

Aside from the economic advantage of having NCM battery materials from one source, AUZ believes there is still room to factor in other potential revenue streams to improve Sconi's value – such as production runs of NCA (nickel cobalt aluminium), NCMA (nickel cobalt manganese aluminium) and new aluminium alloys using scandium – none of which are included in the current DFS.

AUZ plans to begin construction of a full-scale production plant within six months of agreed offtake negotiations for the (hopeful) completion in calendar 2023. But the company does have the add-on support (and Prescribed Project Status) from the Queensland government to implement the new model strategy. While we wait for the optimised DFS and a resource expansion, we can at least feel a little more confident in Sconi's potential and the company's direct to manufacturer P-Cam strategy. Four stars from us.

LATIN RESOURCES

Arriba the next halloysite play

Stocks Down Under rating: ★★★★

ASX: LRS
Market cap: A$ 72.5M

52-week range: A$0.003 / A$0.10
Share price: A$ 0.052

This company's name may be Latin Resources, but the action isn't really in Latin America anymore – it's at a place called Merredin in the Western Australian Wheat Belt. Not far from Merredin, Latin Resources is in a Pre-Feasibility Study with its Noombenberry Project evaluating this project's chances to produce high-value kaolin and halloysite. The high grade of parts of the Cloud Nine deposit suggests a big payday is coming.

Share price chart

Source: Tradingview

Latin Resources has a number of arrows in its quiver right now. As per the company's name, there's a lithium project in Argentina and a copper project in Peru. The lithium project recently attracted a local joint venture partner. In WA's Paterson Province Latin Resources has another copper project. In NSW, there's a couple of gold projects. And in Canada the company owns 24% of a TSX-V listed company, called Westminster Resources, with copper plays in Peru and Chile. However, the reason Latin Resources stock re-rated from about 0.3 cents a share in mid-2020 to 8.3 cents on 24 February 2021 is because of kaolinite and its cousin mineral, halloysite.

The next halloysite play after Andromeda

You've probably heard of kaolinite before. It's the mineral we get from kaolin or 'China clay' that makes paper and porcelain glossy and shows up in paint, rubber, cable insulation, specialty films, and fertiliser. The world consumes billions of dollars a year of the stuff and demand is rising fast. Kaolinite, however, is nothing too special. Halloysite, by contrast, is something that gets the experts excited. And out near Merredin, which is about the halfway mark on the drive from Perth to Kalgoorlie, Latin Resources may have inherited a lot of halloysite since it acquired the Noombenberry project there in October 2019.

The reason knowledgeable people get excited about halloysite has to do with its 'tubular morphology'. All it's got is a couple of extra water molecules (kaolinite is $Al_2Si_2O_5(OH)_4$, halloysite is $Al_2Si_2O_5(OH)_4\text{-}2H_2O$) but when those nanotubes form, they leach out all the impurities you would ordinarily find in kaolin. That means you're going to want halloysite for the very high-end ceramic applications, but its uses go way beyond that. It shows up in the petroleum industry as a cracking catalyst. You can potentially use it for things like hydrogen storage or carbon capture and all sorts of nanotechnology applications. Importantly, it's much better for making High Purity Alumina than kaolin.

Back on 24 September 2020 in Resources Stocks Down Under we introduced you to halloysite because that's what Andromeda Metals (ASX: ADN) is going after with its Great White Kaolin Project in SA. It's the halloysite there that has propelled Andromeda to a market capitalisation in excess of half a billion dollars. At the moment, you can get Latin Resources' kaolin-halloysite play for a mere $80m or so.

Taking the shareholders to Cloud Nine

That $80m currently gets you 207 million tonnes of high-quality kaolinised granite in a deposit within Noombenberry called 'Cloud Nine'. Not all of Cloud Nine is halloysite, but a fair bit is. In this initial global inferred resource, which is a JORC 2012 estimate published at the end of May, there's 123 million tonnes of kaolin-bearing material and 84 million tonnes that is both kaolin-bearing and halloysite-bearing. Segment the deposit further and what really interests Latin Resources is an 87 million tonne domain where the kaolinite and halloysite is all high grade and has good brightness (the brighter the whiteness, as measured by the ISO-B scale, the better) and where 35 million tonnes of that domain have a juicy halloysite grade of 6%. The kaolin at Noombenberry had been known about since 1999, but it was only two decades later that the people who sold the project to Latin Resources figured out there was halloysite here.

All the infrastructure is there, only 300 km from the Port of Fremantle, to get a kaolin-halloysite mine happening, although this is the Wheat Belt, so Latin resources must keep the local wheat farmers on its side. Alongside the next round of drilling to be conducted from July, technical studies on the Cloud Nine deposit will feed into a Pre-Feasibility Study that will look, among other things, at where to market the halloysite. The exploration work to date is showing that the good stuff is very close to surface and the overburden is just easy-to-cut sandy soil. That would make it extremely easy to mine.

There's a lot of drilling still to go to build out the Cloud Nine resource, but what we've seen so far is promising and suggestive of good news flow in the months ahead. The next drill campaign is aimed at extending the resource and beyond Cloud Nine, Latin Resources has 560 sq km in tenements at Merredin so there's a lot of potential new discoveries just waiting to happen. Indeed, the company reckons that surface sampling may point to two new kaolin-halloysite occurrences.

Latin Resources stock wasn't able to break the February 2021 high in a brief rally in late April and early May. However, with the drill rigs to mobilise again shortly we think investor attention will return to this stock. The company can fund that next drill round with the cash on hand, which at the end of March was $4m, since low-cost air core drilling is all you need to prove up a resource like Cloud Nine. Although this project is still in the early stages, the kind of resource reported in May suggests a potential company-maker. 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