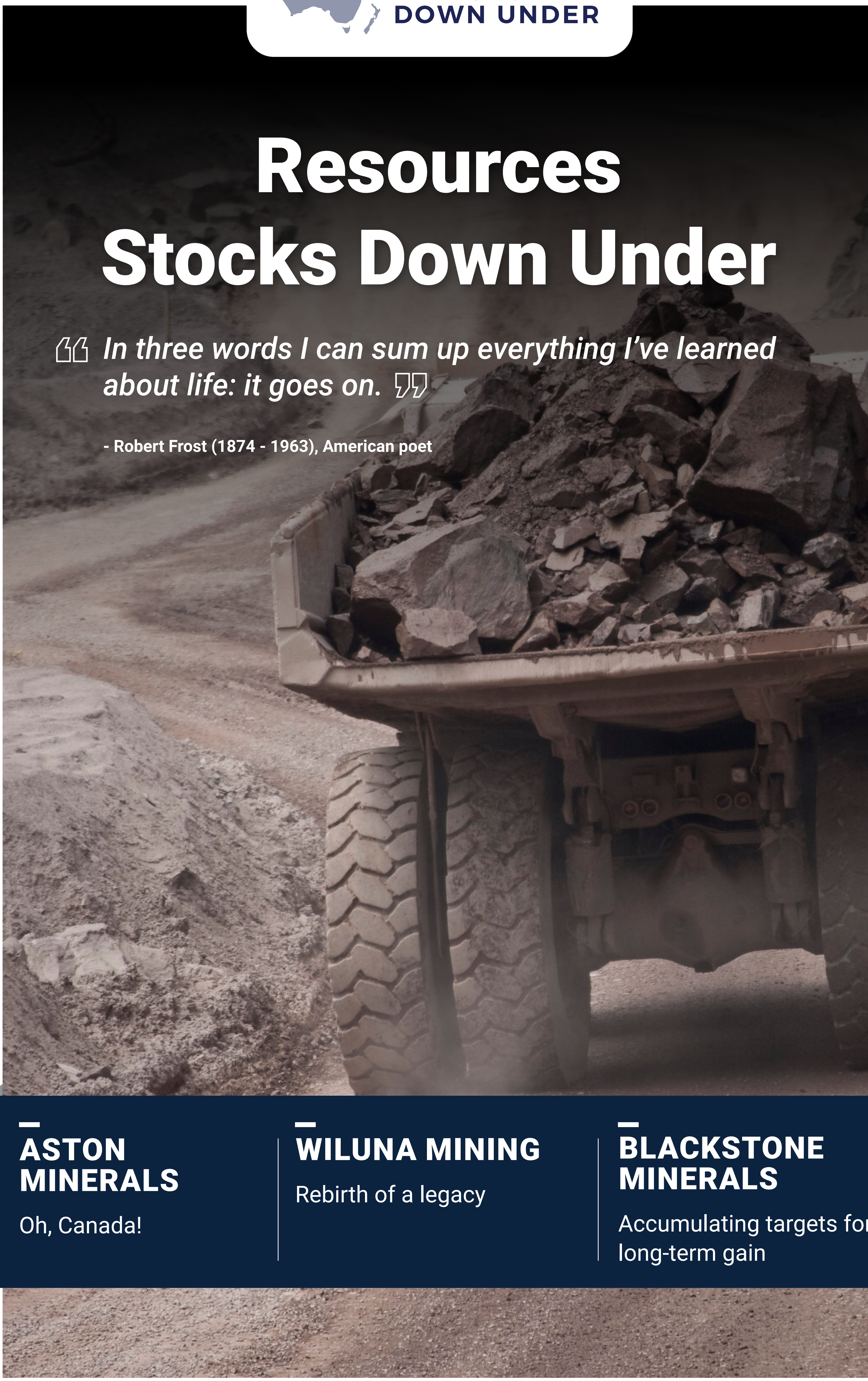

Resources Stocks Down Under

In three words I can sum up everything I've learned about life: it goes on.

- Robert Frost (1874 - 1963), American poet

ASTON MINERALS

Oh, Canada!

WILUNA MINING

Rebirth of a legacy

BLACKSTONE MINERALS

Accumulating targets for long-term gain

ASTON MINERALS

Oh, Canada!

Stocks Down Under rating: ★★★★

ASX: ASO
Market cap: A$157M

52-week range: A$0.029 / A$0.235
Share price: A$0.16

WA-based junior Aston Minerals is turning away from its previous cobalt focus and is focussing all of its attention on its flagship Edleston Gold Project in the Canadian province of Ontario. Although the company is still holding onto a group of European polymetallic projects, Aston believes it can find extended gold mineralisation where previous operators at Edleston have failed and is so far living up to its own hype with positive gold hits earlier this year.

READ MORE

WILUNA MINING

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Market cap: A$150M

52-week range: A$0.865 / A$2.30
Share price: A$0.98

As the reinvigorated version of Blackham Resources, Wiluna Mining has an entirely new plan for the once struggling Wiluna Gold Mine. In a move away from Blackham's process, Wiluna wants to finally renew the mine's legacy to a more profitable joint gold dore/gold concentrate hub. With Stage 1 exploration underway, the company is rapidly moving toward increased production and a stronger balance sheet.

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Share price chart

Source: Tradingview

Canadian gold remains strong

Edleston is undergoing its first drill program in a decade after Aston Minerals (formerly European Cobalt) acquired the project from a Toronto-based company, called 55 North Mining, last year. Covering 64 square kilometres in north-eastern Ontario, Edleston lies within the gold-rich Abitibi Greenstone belt, but not at 55 degrees of latitude North. It's only 60 km south of the gold mining town of Timmins, which is a mere 48.5 degrees North.

While 55 North Mining's tenure at Edleston was beset by limited capital, a poor gold price and a market that was more interested in cannabis and cryptocurrency, Aston's 'maiden' campaign is already providing visible gold at the Edleston main prospect. In early May, the company brought in a second drill rig to test the northern section of the main prospect.

In keeping with the company's former handle, Aston has an intriguing portfolio of multi-purpose assets in Europe, including two cobalt-nickel-copper projects in central Slovakia and one cobalt-copper-gold project in northern Finland. In addition to that, the company is also evaluating its four Swedish cobalt, copper, nickel and gold projects to determine their future merit. Most of the work at these projects has been deferred with a question mark over any potential long-term development.

It helps to have help

Edleston's exploration history has offered up multiple-high grade hits over 165 holes covering 46,000 metres, but many of the previously identified targets require further investigation. Of significant near-term interest is the Hanging Wall target, which separates the main prospect from the Sirola Zone to the west. Magnetic and aerial data indicates that the Hanging Wall could be part of a 10 km mineralised gold trend. It might be for that reason that Aston also increased its hold on a further six mining claims to the south-west earlier in the year, which now gives Edleston a bigger footprint in the Abitibi. That's important because there's bound to be some more discoveries in this belt, which stretches from western Ontario all the way to Val d'Or (the City of Gold) in Quebec and carries some of Ontario's biggest 'camps' (i.e. gold-rich regions). Like, the 71moz from the Timmins camp, not to mention the 24moz that the Kirkland Lake camp has offered up over the years.

Edleston's comeback from mining limbo has helped Aston's share price rise from its January low of 0.4 cents, but now the company is hoping that those early intercepts – including 1m at 2,035g/t gold from 362 metres – and the additional ground will help find the missing link between Edleston and Sirola. Aston has the advantage of bringing 55 North Mining's previous MD, Dale Ginn, into the company's ranks, which should provide that added background and experience.

While Quebec is a powerhouse of gold production in Canada (around 33% of all production), Ontario continues to be the driving force for production. A new wave of junior exploration is evolving since the province elected a new mining-friendly government under Premier Doug Ford in 2018. Edleston is one of the many projects likely to benefit from the region's post-pandemic recovery. Given these times, it's not hard to see why Aston is perfectly fine focussing on Canada over Europe for the time being.

Don't put all your eggs in one basket

The company has a timeline of what it calls upcoming 'value catalysts', which includes the aforementioned mobilisation of the second drill rig to evaluate the potential of that 10 km strike. The current drill program will continue its focus on the Hanging Wall Zone with a 3D IP (induced polarisation) survey to start in the next month. As the mission is obviously expansion, 3D surveys will help build on earlier data and assist with regional targets.

As previous owners have spent upwards of C$10m on the project, Aston is well-positioned and funded to expand its program with A$6.7m in cash reserves at the end of April and a greater degree of confidence. Given its new gold obsession, it would be beneficial if the company found the same gold potential in its polymetallic European projects. Still, Aston has brought a lot of energy to reawakening Edleston in a solid jurisdiction like Canada. And as a WA explorer, there may be a window to take on two WA gold projects – Defiance and Mt Howe – later down the track. Four stars from us.

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Share price chart

Source: Tradingview

Edge of the desert

Wiluna Mining is being built around the Wiluna Mining Operation, an area comprised of around 1,600 sq km of gold-rich tenements 750 km northeast of Perth. The neighbourhood has historically produced over 4 million ounces of gold and Wiluna Mining's project now has defined resources of 6.4 million ounces at a grade of 2.1 g/t Au. Fortunately for investors, there's likely more where that came from because Wiluna Mining has ambitious exploration plans for the next couple of years.

The new Wiluna Mining board, including ex-Newmont Mining staff, is the re-energised version of troubled Blackham Resources, which suffered through high debt and dwindling gold production. With that new board, (almost) no debt and more cash, Wiluna is currently in Stage 1 (54% complete as of 23 June 2021) of a three-year timeframe to build up its gold inventory and increase production of gold dore (gold bar) and gold concentrate from 62,000 ounces to 100,000-120,000 ounces before moving to 250,000 ounces in Stage 2/2024. To meet the timeframe, a full underground mine infill drill program is underway while Wiluna carries its Stage 2 Feasibility Study forward.

Undervalued but has potential

Wiluna has made some significant steps in its growth strategy in the last quarter. The renewed exploration program has found high-grade extensions at the Regent and Williamson deposits and Golden Age underground mine as well as new discoveries at the Starlight and Essex prospects. Wiluna already ranks as the 7th largest goldfield in Australia. Still, the key task for its present owner is to continue to convert resources to reserves and avoid Blackham's short-term inventory mistakes. Even with its potential resource, Wiluna believes the project is about 15 years behind where it should be in terms of resource and drilling definition compared to big neighbours, like Northern Star's 300,000 ounce per year at Jundee. Therefore, there is a definite feeling of haste from the company with the current RC and diamond drilling program working to feed the Stage 2 feasibility study. Under Blackham, drilling didn't go beyond depths of 500m, meaning there is significant potential to expand on those underground figures before the study is complete.

Wiluna's long-term strategy for the field is to reduce reliance on free-milling gold production and transition to a combination gold dore and gold in concentrate production. This will allow the more refractory ores to get tapped. Why gold in concentrate? The transition is billed as a low-cost, environmentally friendly pathway to handle refractory ore through pressure oxidation (POX) technology. The company already has three years' worth of gold concentrate (70%) signed in an offtake agreement with $9.5bn Russian miner Polymetal that has the POX smarts.

As the last open pit at Williamson is depleted and underground operations come back to target range, Wiluna expects the project's AISC to come down as performance improves. The accelerated program has delivered strong progress during the March quarter with 142% underground reserve growth to 662,000 ounces at 4.47g/t gold and a production of 12,271 ounces at an AISC of $2,130. Operating cash flow also increased by $500,000 to $7.5m.

Past future or future past?

Speaking of cash, this company has been on a funding roll, with a $7.5m share placement at $1.00 per share in March along with another $3.1m entitlement issue and a $40m tranche debt facility with Mercuria, hence the 'almost' debt-free tag. That funding, along with the $20m in cash flow expected by the September quarter, is all Wiluna needs for Stage 1. This will see the construction of the concentrator completed by October combined with existing underground drilling to feed into the completed Stage 2 Feasibility study, which is expected by the end of CY21.

With a new team behind the wheel, there is a lot of pressure for Wiluna to succeed as a profitable and long-term gold mine. There's also a certain amount of nostalgia in the company's dream: as it was previously one of the biggest gold mines in the British Empire, the wider Wiluna mining community would probably like to see the project get a second life. Assuming everything stays on the current accelerated schedule and gold continues its recent recovery, investors may see a more golden future. Four stars.

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Share price chart

Source: Tradingview

King Snake strikes again

Blackstone's Ta Khoa Project – pronounced 'ta-qua' – is located 160 km west of the Vietnamese capital Hanoi in the northern Son La Province. Ta Khoa is relatively advanced in that it includes an underground nickel mine (on care and maintenance since 2016) and existing open pit infrastructure, including a 450,000 tonnes per annum processing plant. In an attempt to create more value, the company is progressing two Prefeasibility Studies to consider its upstream and downstream processing options for the production of the nickel precursor products used in lithium-ion batteries.

Blackstone's late 2020 scoping study is based on a disseminated nickel sulphide orebody called Ban Phuc, with a maiden indicated resource of 44.3 million tonnes at 0.52% Ni for 229,000 tonnes of nickel. This study highlights some strong economics, including cash flow of $179m per annum from an annual production of 12,700 tonnes over 8.5 years.

While the scoping study announcement didn't result in the positive share price movement Blackstone was hoping for (the price dropped from 49 cents to 33 cents), the company is confident that its aggressive exploration activity combined with its fast-tracked Prefeasibility Study work will increase both investor and potential joint venture interest. Outside of Ban Phuc, Blackstone is working to incorporate high-grade massive sulphide vein (MSV) deposits into its overall mine plan, with ongoing exploration at two prospects, called Ban Chang and Ta Cuong. The company has a particular interest in the King Snake deposit, which has so far provided strong assay results suggesting thick sulphide mineralisation over an 800-metre strike.

A complicated but systematic approach

Although we don't often think of it as a tier 1 mining jurisdiction, Vietnam has the advantage of being an underdeveloped region with unexplored resources, which is an excellent starting point for a junior looking to export nickel sulphide to the larger Asian region. And now that Indonesia's export ban is in full effect, what better place to find it than Vietnam? The country also offers significant cost benefits thanks to low labour costs and access to renewable hydropower. Now that Blackstone has fast-tracked its Pre-Feasibility Studies, the company is considering the refinery design for the production of multiple products, including nickel concentrate, nickel sulphate and MHP (mixed hydroxide precipitate). But the real long-term strategy is to develop high-grade nickel precursor product for use in battery cathodes. As nickel precursor products, like NCM (nickel-cobalt-manganese), attract a significant price premium over the other kinds of nickel out there, Blackstone's downstream processing process can be tailored to attract big-name customers. We consider this a possibility considering the kind of deals that were signed recently in the space, including billion-dollar investments by POSCO and LG.

As the scoping study only highlighted a base case for a production target of 25,000 tons per annum of NCM precursor, a certain level of scalability must meet the expected demand. Fortunately, Blackstone has the backing of the South Korean cathode producer EcoPro to fund the downstream process 50/50. It also has a deal with commodity trader Trafigura to supply third-party concentrate.

By combining Ban Phuc's maiden resource, high-priority targets at King Snake and Ban Chang, and third-party concentrate, the company will eventually be able to expand downstream capacity to 200,000 tons per annum through a staged approach. That staged approach may be why some investors were so underwhelmed by the scoping study figures. But instead of a promise of a quick profit, it helps to remember that upstream exploration at Ta Khoa is key to building downstream value over time – and in this case, that exploration covers at least 25 potential disseminated sulphide and massive sulphide vein targets. In any event, the immediate Net Present Value still stands at A$929m (at an 8% discount rate) and an Internal Rate of Return of 45%.

Further updates pending

Blackstone aims for a completed downstream PFS in June/July, while the upstream PFS is expected in the second quarter. As this is a staged approach to restarting production at Ban Phuc, Blackstone plans to reduce its overall $314m CAPEX by using the cash flow generated from the baseload at Ban Phuc before moving on to the construction of an expanded 4 Mtpa concentrator, which means the NPV could be further improved. At the end of March 2021, the company had a cash position of $20m, with a large portion of that going to exploration. Ideally, Blackstone wants to add as many targets as possible to the PFS work to improve the original scoping study numbers.

As ever, offtake agreements and joint venture funding remains the next hurdle for Blackstone to jump over before the Definitive Feasibility Study is underway. But as Vietnam is rapidly turning into a significant battery production location – with LG and Samsung's EV and Li-ion battery hub just down the road in Hai Phong – we believe Ta Khoa is well placed for a deal or two. With the project's upside exploration potential, we consider Blackstone a long-term opportunity to watch with some significant milestones still to come. 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.

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