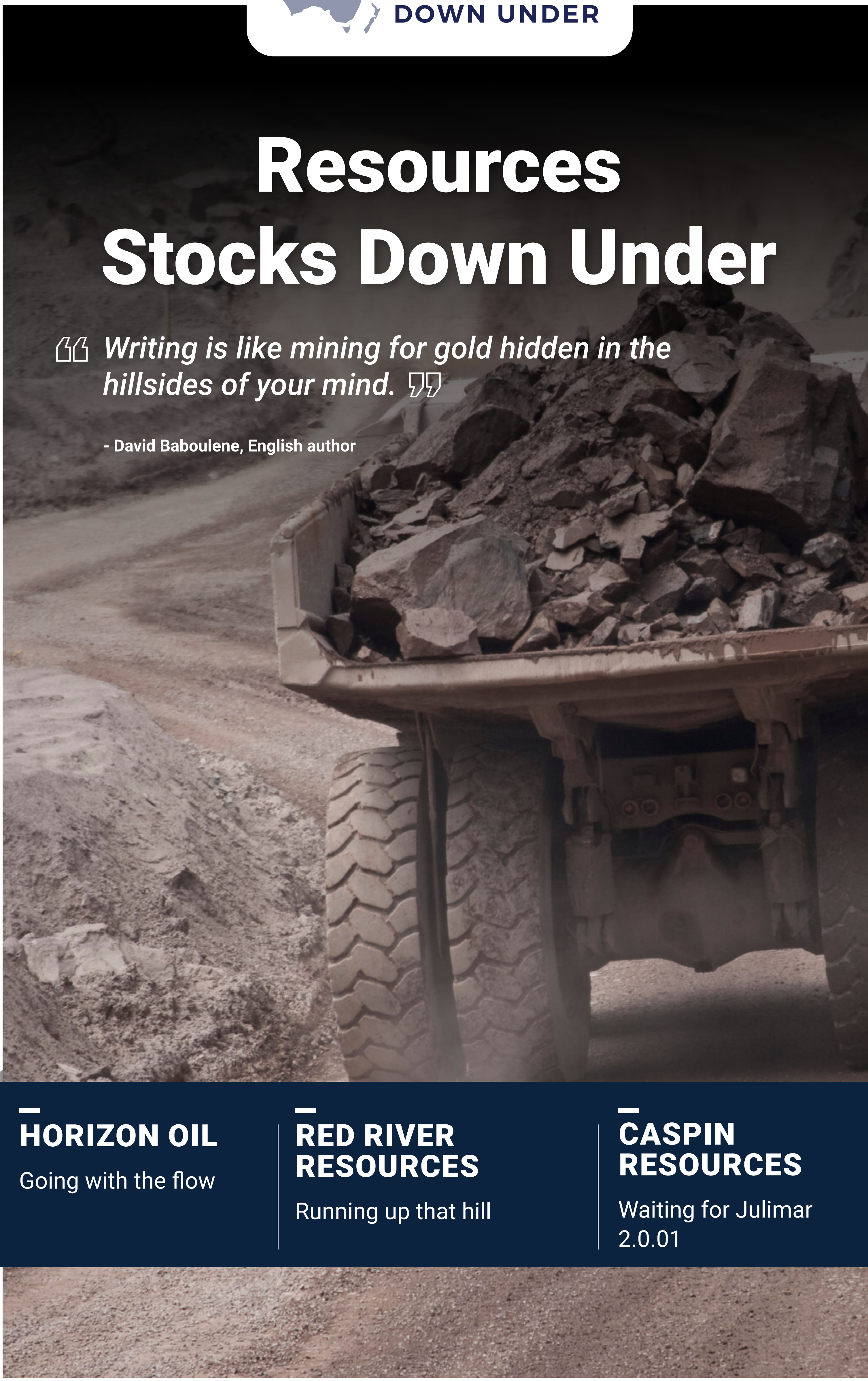
STOCKS DOWN UNDER

22 JULY 2021

Resources Stocks Down Under



"Writing is like mining for gold hidden in the hillsides of your mind."

- David Baboulene, English author

HORIZON OIL

Going with the flow

RED RIVER RESOURCES

Running up that hill

CASPIN RESOURCES

Waiting for Julimar 2.0.01

HORIZON OIL

Going with the flow

Stocks Down Under rating: ★★★★

ASX: HZN
Market cap: A$182M

52-week range: A$0.05 / A$0.12
Share price: A$0.11

Horizon Oil is an upstream oil and gas explorer with a focus on expanding its current Asia-Pacific portfolio. After a difficult time attempting to expand into gas production and development in Papua New Guinea, the company has reset its growth strategy to expand production at its Chinese and New Zealand operations and increase its overall cash generation in the medium term. Although it hasn't completely ruled out the possibility of acquiring new oil and gas assets.

READ MORE

RED RIVER RESOURCES

Running up that hill

Stocks Down Under rating: ★★★★

ASX: RVR
Market cap: A$106M

52-week range: A$0.095 / A$0.33
Share price: A$0.21

The catchily-named Red River Resources likes to revive mines. It did it first with its flagship Thalanga Mine in 2017 and has since reaped the benefits of zinc, lead and copper concentrate production. Now Red River has restarted the often-mothballed Hillgrove Gold Mine, near Armidale in NSW, with a plan to avoid previous mistakes and extend gold production for the foreseeable future.

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CASPIN RESOURCES

Waiting for Julimar 2.0.01

Stocks Down Under rating: ★★

ASX: CPN
Market cap: A$64.3M

52-week range: A$0.43 / A$2.92
Share price: A$1.01

Newly-formed Caspin Resources is a mineral exploration company that enjoyed huge gains in its share price in May after reporting promising drilling results at its flagship Yarrawindah Brook Nickel-Copper-PGE Project in WA. Under the direction of former owner Cassini Resources, the company is expanding sulphide exploration at Yarrawindah and new gold targets at its second project at Mount Squires. But, as always, the potential to find another Julimar is all anyone cares about.

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Share price chart

Source: Tradingview

Opportunity on the Horizon

Horizon currently has two main conventional oil operations, one in New Zealand, the other in China. In New Zealand the company holds a 26% stake in the Maari and Manaia oil fields in the Taranaki Basin, 80 km offshore from the coast of that region of the North Island. In China the company has joint ventured with Australian producer Roc Oil and South Korean Majuko Corp in Block 22/12, which captures the Weizhou oil field in the Beibu Gulf of the South China Sea. Horizon has a 26% production stake here, along with a 55% exploration stake with further production opportunities available.

During the March quarter the company continued to see increased production (to 345,408 bbls) at its Beibu Gulf operations while completing its two well infill drilling programs, which will enhance recoveries and lift gross production to 9,500 bopd (barrels of oil per day). This lift, combined with the current resilient oil price, has encouraged Horizon to pursue other infill opportunities within the block. Back in New Zealand, production increased by 1% despite workovers at two wells with an average of 4,727 bopd. Although COVID-19 shutdowns slightly impacted sales and revenue, operating costs have declined at both sites giving the company a healthier net cash position of $13m.

So close and yet so far

The performance highlights during the last quarter has seen Horizon's share price rise to its best position for six months at 10 cents a share – a far cry from the company's price crash in February 2020 to just 4 cents. Just a few years ago, the company was looking ahead to its ultimate goal: the development of four petroleum licences in western Papua New Guinea, but that endeavour was put on hold after allegations of bribery and suspicious payments made in 2011. Apart from an independent investigation finding no wrongdoing on the company's behalf, the road to any actual development has been beset by a lack of infrastructure in a remote location and legislative changes in PNG, and an all-around bad feeling. This is why Horizon sold its original PNG portfolio in late 2020 for roughly A$5m, impairing the value of the PNG licences from US$67.1m.

Despite the previous difficulties, the company is conservatively hinting at future asset deals in the southeast Asian region while it pursues its short-term goal of cash generation, although nothing has been named. The rich gas resource in western PNG would have given Horizon an avenue from oil to LNG production, an industry which will become increasingly important to the region with a third of the world's gas expected to be consumed in Asia by 2050. While there is significant upside potential here, the company is unlikely to rush into anything and instead will focus on increasing the staged production and development in China - including a Final Investment Decision (FID) for another development at WZ12-8E, which could add seven or eight wells – and enhancements in New Zealand. After a turbulent 10 years, this strategy has allowed Horizon to reduce its debt by US$130m, with some observers predicting that the company will have a much stronger cash position of US$80m by FY23.

Refocused growth plan

Although FY20 production was impacted by COVID-19 at both sites, Horizon is focused on making its New Zealand and China developments long-life productions, with reserves forecast to extend to 2028. After its previous history, the key strategy for the company is simply to be resilient in the face of volatile oil prices. The current oil price recovery could have a major impact on future cashflow, with free cashflow increasing at a rate of US$8m for every US$10/bbl increase.

With overall FY21 guidance of 1.3-1.4 million barrels and a projected revenue of US$50-60m, Horizon looks to have positive forward momentum again. But at the same time the PNG saga seems like a lost opportunity. Perhaps if the company's momentum continues, and is reflected in the share price, a much more sustainable and less risky opportunity will present itself? Four stars.

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Share price chart

Source: Tradingview

Second (or third or fourth) life

Red River's company-making Thalanga Base Metal Project is located 55 km west of Charters Towers in northern Queensland. Red River acquired it from the old Kagara Mining in 2014 after a five-year shut down. It quickly managed to improve the project's resource base at three deposits while defining a new deposit worth 4.1 million tonnes at 12.7% Au, which it called Liontown East. With production at the original West 45 deposit at Thalanga ceasing in 2020, Red River is now operating out of the Far West underground mine while it prepares the new mine design at Liontown. Red River had record copper concentrate production in the December 2020 quarter and over the previous twelve months has recorded strong revenue of A$98m and lower cash costs of US$0.14 a pound of zinc equivalent.

Down in NSW, Hillgrove's Stage 1 restart saw the first gold pour in 20 years in March, where about 18,000 tonnes of ore from the nearby Bakers Creek stockpile is currently being processed through the project's existing processing hub. Stage 2 will be the full restart of underground production at the Metz mining centre by the end of CY21, which has a resource of 3.0 million tonnes at 4.5 g/t Au and 1.4% Sb. That 'Sb' is antimony, Element No. 51 (the Sb stands for from 'stibium', the element's name in Latin). Red River aims to produce around 30,000-50,000 ounces of gold equivalent a year from Hillgrove for the next few years in the form of dore, gold concentrate and antimony concentrate.

History repeating itself (but not too much)

As Thalanga's success was underpinned by zinc demand, Hillgrove's potential lies in gold, a factor that has impacted the mine's success or failure many times before. The mine, which is named after the historic gold mining town, was born in 1857 and has had a rather stop-start history, but managed to produce a respectable 738,000 ounces of gold over time. Red River's restart program paid close attention to the past failures and came out with an action plan to focus on gold rather than antimony, but antimony is still an important ingredient. Antimony isn't quite a household word when it comes to metals, but these days it's rapidly becoming one of those 'critical' minerals because of its use as an alloy to strengthen lead in batteries. The rise of 'molten salt' batteries - liquid metal batteries used in mass storage - could see a rise in price now that Chinese exploration in this area is diminished. As for Hillgrove itself, now that one company controls the entire Hillgrove mineral field – which hosts 200+ known gold-antimony deposits – there is the potential for multiple mining centres, including at the Eleanora-Garibaldi, Curry's Lode and Brackens Spur deposits, which have had minimal development.

In line with Red River's current gold strategy, the next phase of Thalanga's development will be to make Liontown the third base to maximise gold exposure and provide a resource of 5.5 million tonnes for at least 5-10 years. Thalanga has a much shorter history than Hillgrove, having only been discovered in 1970, but Red River suspects there are more volcanic-hosted massive sulphide (VHMS) deposits like it in the Cambro-Ordovician Mt. Windsor Volcanic Belt, so there will be plenty of regional exploration work in the years ahead. Unlike Kagara, which pointed to falling zinc and copper prices and high production costs for its downfall, Red River is running high from its March quarter revenue and lower operating costs (combined with renewed concentrate sales to Trafigura and Glencore) to extend Thalanga's life a little further. Although Red River stock is nowhere near the February 2018 high of 41 cents registered after Thalanga's restart, the company's actions at Hillgrove have buoyed the share price in recent days from the June lows.

Herberton's trifecta

The next challenge for Red River is the Herberton Silver-Indium Project in northern Queensland, 500 km north of Thalanga. Herberton is actually two polymetallic projects, Isabel and Orient, which host the highest-grade indium deposits known in the country. Like antimony, indium, Element No. 49, is increasingly classified as a critical mineral as a result of its limited supply and its range of manufacturing uses. And even though it has the 'critical mineral' tag, there are few Australian indium projects, even with indium as a by-product of zinc production. While this is not a restart for Red River, both Isabel and Orient offer something fairly niche as standalone operations or as a potential feed for Thalanga.

With an increasingly diversified portfolio, Red River appears to be striking a balance between price and demand. While Thalanga and Hillgrove have a well-trodden background, the revenue generated there will be a handy step up for further testing at Orient and Isabel where historic exploration has been very inconsistent. With revenue flowing smoothly to $26m as of March, the company has $15m leftover after Hillgrove to make a successful trifecta at Herberton.

Red River stock has been trending down since the start of 2021, but we think there's a lot of potential upside in that project trifecta. Four stars from us.

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Share price chart

Source: Tradingview

Previously overlooked projects

Caspin looks a step closer to finding a lookalike Julimar discovery near the town of New Norcia – made famous for its community of Benedictine Monks – and 40 km north of Chalice Mining's project of the same name. A maiden drilling programme at Yarrawindah Brook has already uncovered significant sulphide zones at the XC-29 and Yarabrook Hill prospects in April and May, respectively. And now Caspin's ongoing soil geochemistry program has highlighted a surface palladium (6ppb) anomaly spanning 3 km in a previously untested zone. A nickel-copper-PGE anomaly was also discovered 500 metres east of Yarabrook Hill. With only 35% of the project sampled as of June, the company believes the anomalies are comparable to Chalice's Gonneville discovery 40 km south. Gonneville, you may remember, was the find that got the whole Julimar thing happening in March 2020.

Mount Squires is an early-stage, large-scale greenfield gold project adjacent to Oz Minerals' West Musgrave Project. Prospective for gold, nickel and copper, only one prospect (Handpump) has been minimally drilled, but recently the company has identified a potential porphyry copper-style anomaly at the newly discovered Duchess prospect 4 km southeast. Additionally, previous IP surveys at Handpump have hinted at a deeper (200 metre) IP chargeability anomaly, which could indicate sulphide mineralisation, but this has not been drill-tested yet.

Cassini's loss is Caspin's gain

Given that Caspin only listed in November 2020, the company's quick impact has seen its share price rise from just 64 cents in May to $2 now. Chalk that up in part to the fact that not only is Caspin is essentially chasing the same Julimar dream as its neighbour, Devex Resources, but actually has the support of Chalice, which was cornerstone for the initial IPO and owns 10%. It also helps to be friends with Oz Minerals, which gave Caspin two underexplored, but promising projects picked up in the takeover of Cassini Resources. Largely untested by previous exploration, Cassini spent two years to establish the Yarabrook Hill deposit as just a small portion of a larger ultramafic intrusive complex prospective for Ni-Cu-PGE mineralisation, yet only 5% of the project area has been investigated for Platinum Group Elements (PGE).

Given that palladium-dominated PGE deposits are hard to find at the best of times, PGEs – including palladium, iridium and rhodium – are increasingly valued for use in a wide range of medical, tech and industrial applications. Due to its declining supply, we believe palladium could reach a high of US$2,700 per ounce this year.

As for the mystery at Mount Squires, Caspin sees the potential on two fronts, with the gold potential found at that 50 km gold corridor and significant Ni-Cu mineralisation extending into the eastern side of the project area from Oz Minerals' One Tree Hill prospect (including 40m at 1.2% Cu). Under the scheme of arrangement with Oz Minerals, Caspin holds the right to receive a payment up to A$20m if Oz Minerals sells 30% or more of its interest in West Musgrave, which would allow for greater development opportunities. At present, West Musgrave's 2020 Prefeasibility Study outlines a 26-year project with annual production of 28,000 tonnes copper and 22,000 tonnes nickel. While Mount Squires might not hold those Ni-Cu numbers, the project is suddenly much more interesting with its west/east gold and copper divide.

Next steps on two new frontiers

As Mount Squires offers a unique greenfield exploration opportunity, Caspin will prioritise the gold potential with further soil sampling and RC drilling identifying new targets at Handpump. But the company will give space to evaluate that Ni-Cu mineralisation. Naturally, Yarrawindah's potential as the next Julimar is all the all-important focus, with follow-up drilling already planned for Yarabrook Hill. With 2,500 soil samples completed to date, the company will expand EM and gravity coverage throughout the project to bring in new targets at the Aveena, Brassica, Ovis and Aries prospects.

With $7.3m in cash at the end of the March quarter, Caspin has moved swiftly and proactively on the back of Cassini's work. And while that jump in share price is deserved, we think a lot of that jump is based on the hope that Yarrawindah can mirror Chalice's success. That's not a judgement so much as a reason to watch the company closely, especially when several of Caspin's neighbours, including Liontown Resources, are trailing behind.

Is Caspin worth owning now? We fear that the May re-rating and subsequent de-rating from June might cause investors unfamiliar with the story to hold back for a while. That makes the stock two stars for now. But watch it closely. If Julimar 2.0 upgrades to Julimar 2.0.01, so, we think, will Caspin's share price.

Pitt Street Research Pty Ltd

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