STOCKS DOWN UNDER

16 SEPTEMBER 2021

Resources Stocks Down Under

> *Fear has many eyes and can see things underground.*

- Miguel De Cervantes (1547 - 1616), Spanish writer

MATADOR MINING

What's new in Newfoundland

PAN ASIA METALS

Rocks hotter than the Phuket tourists

KING RIVER RESOURCES

All hail King HPA

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Stocks Down Under rating: ★★★★

ASX: MZZ
Market cap: A$85.6M

52-week range: A$0.28 / A$0.585
Share price: A$0.385

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Share price chart

Source: Tradingview

If your only exposure to Canadian island of Newfoundland before today was reading Annie Proulx's 1993 novel The Shipping News, get ready for a more rewarding read. This is a true story called The Cape Ray Gold Project and while it's still being written, we predict it will have a happy ending. That's because of a chapter that was published last year called Scoping Study.

Great trendology

The setting for this page turner is Cape Ray, which is the southwestern corner of the island looking out on Cabot Strait. Find the town of Channel-Port aux Basques on the map and you're not far from where Matador Mining's potential company-maker was discovered in 1977 by Rio Tinto. Three years ago, when Matador picked up 80% of its Cape Ray Gold Project, there was only 525,000 ounces in a non-JORC resource, but drilling over the years had turned up some good intersections and the existing resource was open at depth and along strike.

Importantly, there was some great 'trendology'. The Cape Ray Shear Zone was known to stretch clear across the island to Notre Dame Bay and only 50 km further up this shear from Matador's claims, a Canadian company called Marathon Gold (TSX: MOZ) was working on a large deposit called Valentine Lake. There's now 4.8 million ounces there and Marathon wants to start mine construction next year.

A great scoping study

Matador's maiden JORC resource in mid-2018 was 750,000 ounces. Further exploration work took this up to 837,000 ounces by 2020, with an indication that the ore was easy to process with standard flotation followed by carbon-in-leach. In 2019 Matador had bought the 20% it didn't own in Cape Ray. This brings us to the Scoping Study chapter, where the readers learn how much shareholder value has been hustled up.

For this study Matador deliberately reduced the resource estimate to just 837,000 ounces to model a purely open-pit operation covering four deposits – Window Glass Hill, Big Pond, Central Zone and Isle Aux Morts. Yes, they named a gold deposit 'Island with the Dead', maybe so the book called The Cape Ray Gold Project could have a supernatural angle to it. Importantly, the Study assumed ore would only be mined to a maximum depth of 120m from surface in four of the five pits, which is extremely shallow and goes a long way to explaining the strong economics. It's a small mine, with only an initial seven years of life producing 483,000 ounces. But – get this – the All-In Sustaining Cost (AISC) for this Study was a mere US$776 an ounce. You read that right.

US$776 was what you get with shallow, easy-to-process ore where the processing is done using low-cost grid power (how'd you like $0.06 per KWh Down Under?) and where you get some decent silver credits. Post-tax, in Australian dollar terms, the NPV at an 8% discount rate was a cool A$194m. And that was at a gold price of just US$1,550. Not bad for a company that had paid Benton Resources (TSX-V: BEX) just $5.25m in total value just two years previously.

Now that's a lot of diamond drilling

Now, this is Canada, so getting all the permits to mine was always going to take a while, but Matador's Environmental Impact Assessment is due to finish this year and be submitted in the first half of next year. Give it 12 to 24 months after that, and we believe Matador will be good to go from a regulatory perspective. The Newfoundland and Labrador provincial government over in St. John's is currently Liberal, but the province is very pro-mining, with the latest Frazer Institute survey ranking it one of the ten best jurisdictions on the planet in terms of 'investment attractiveness'. In Canada only Saskatchewan and Quebec rank higher.

Matador's next step will be a Pre-Feasibility Study for Cape Ray to be followed by the Definitive Feasibility. In the meantime, there is likely to be excitement from all the drilling activity. With the company having built up its exploration acreage it now has 120 km of strike length to boldly go where no drill bit has ever gone before. 45,000 metres of diamond drilling is planned for the 2021 season, as well as a bit of auger work to help pick the best greenfield targets. In the novel called The Cape Ray Gold Project this is where the writing might get racy.

As we noted above, Matador stock has been trending down since June. The current EV/resource ounce of $73 may seem high to some, so investors who like Canadian gold plays might like to wait for a support level and that might be the 30 cents per share where Executive Chairman Ian Murray was an on-market buyer in early April. Other investors with a longer-term perspective might take the view that the Cape Ray resource is going to end up a lot higher, while comparable stories like Marathon also provide favourable comparisons. For those folks, this one is four stars.

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Zero Carbon can mean Big Bucks

On 15 January 2021 the market went crazy about Vulcan Energy Resources, bidding it up from the previous close of $4.99 to $9.65 by 20 January, the day before we wrote about it in this publication. The reason for the excitement was 'Zero Carbon Lithium'.

Vulcan had a lithium brine resource near Stuttgart in Germany and had told the market that it intended to produce lithium using geothermal energy. Which is to say, the hot rocks in the neighbourhood would provide all the power that was needed. Throw in 'direct lithium extraction', which cuts out carbon-heavy reagents, and Vulcan could claim that its production process was about as green as you can get. In a global economy where 'decarbonisation' is considered a desirable thing, what Vulcan was proposing looked very valuable. That said, we thought the stock would cool off and gave it two stars. And it did cool off…for about two months, before taking off again, helped by a major investment from Gina Rinehart's Hancock Prospecting in February. Vulcan is now a ~A$1.7bn company.

The next Vulcan?

People are now arguing that Kata Thong can do for Pan Asia Metals what those steaming Upper Rhine Valley geothermals did for Vulcan. We're inclined to be less dismissive of Pan Asia, given the company's smaller scale prior to the re-rate, and the fact that it has a number of other promising projects.

Pan Asia's October 2020 IPO raised $4.3m at $0.20 for a $25m post-money valuation. The two flagship projects were both in Thailand – Khao Soon for tungsten and Reung Kiet for lithium – and the company under Executive Charman Paul Lock had developed a good knowledge of the Thai mining sector and good relationships in the country. The opportunity for Khao Soon was to develop another tungsten resource that would be outside the hammerlock China has traditionally enjoyed on this strategic metal. For Reung Kiet there was potential to develop a hard rock lithium resource valuable to potential offtake partners because of propinquity to end users in Asia. Pan Asia has the distinction of working on just about the only new lithium project in the whole of Southeast Asia.

One for your next trip to Phuket

If you've ever holidayed in Phuket, in Thailand's southern province, you weren't far away from Reung Kiet – it's about 70 km northeast, in Phang Nha province, which is the next province up from Phuket Province. The area is part of an old tin mining region and the pegmatites that historically yielded that metal have shown promise for lithium-bearing lepidolite. Pan Asia has been involved since 2017. Drilling work on two prospects, Reung Kiet and Bang I Tum, has consistently sent back promising intersections, such as those reported on 7 September 2021, and mineralisation continues to be open both along strike and at depth. By early next year Pan Asia hopes to have a maiden JORC resource in hand alongside a Scoping Study.

Khao Soon, where Pan Asia first started work in 2014, is in Nakhon Si Thammarat Province, about 140 km east of Reung Kiet. It was attractive because the area covers an old tungsten field that was worked extensively in the 1970s and where the typical head grade was a juicy 2-4% WO3. Pan Asia believes future drilling work can prove up a small, but still valuable resource in the order of 15-30 million tonnes grading 0.2-0.4% WO3.

A Scoping Study coming soon

All exciting, but right now the real perceived value driver is Kata Thong. This new project is also in Phang Nha province and only 35 km from Reung Kiet. The licenses that Pan Asia just applied for haven't really been explored for hard rock lithium, let alone geothermal lithium, but the rock chip and stream sediment sampling suggests that that's what you can find here. We do know that the rocks are hot, geothermally speaking, in at least two of the five licenses applied for. So, it's fair to say that this project is promising.

We think the re-rating that followed the 31 August announcement just allowed the market to catch up to the potential for Reung Kiet. Remember, they're going after lepidolite at this project so you already have the most valuable of the hard-rock lithiums due to the potential by-products. This is Thailand, so everything is inexpensive. And Malaysia, with its Electric Vehicle and rechargeable battery ambitions, isn't far way. Thailand itself wants to foster EV and battery sectors. So, if Kata Thong works out, it's fair to say that the investor appeal of this stock will take it much higher.

We believe Pan Asia stock may temporarily cool off a bit after the recent spike. However, the company is now much better funded for the 2022 Scoping Study, having raised $8m at $0.40. That Scoping Study isn't far away and, in the meantime, there's plenty of good news flow from all the Thai projects. For folks with the patience to wait a little bit – like maybe a few months – this one is four stars.

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Source: Tradingview

Alumina is simply aluminium oxide, and High Purity Alumina is alumina where there are very few impurities in a batch of the material. There's a lot to like about HPA if you're a metallurgist. HPA is very chemically stable, has a high melting point as well as a high level of electrical resistance and insulation, and good thermal conductivity. 4N HPA, which is 99.99% pure alumina, encompasses a wide market. Developed countries want 4N for the creation of biomedical devices and in developing countries, there's a high demand to produce LED lightbulbs. Indeed, the LED lightbulbs for countries like China and India are the primary growth driver.

Eureka! Striking alumina

Before 2019, King River's development plan for its Speewah Specialty Metals project in the eastern part of the Kimberley Region of WA, focused mainly on vanadium and titanium. The company had been involved in this project for many years. However, it wasn't until early 2019 when it realised that Speewah was rich in the kind of alumina that would make it a potential HPA player. Two years later, and King River has published a Pre-Feasibility Study on an HPA project and put vanadium and the other metals to one side (for the moment).

It's not surprising the HPA potential of Speewah took so long to be recognised. The Speewah Dome vanadium lies within fresh magnetite gabbro of the Hart Dolerite. No one was paying attention to the feldspars within that gabbro because, well, they were feldspars. Who cares about those garden variety aluminium tectosilicates? Unless, of course, the aluminium part happened to be high purity aluminium oxide.

Raiders of the lost ARC

Over the last couple of years King River has developed a proprietary process for processing alumina called 'ARC'. You start with Aluminum chemical feedstock, use only Recrystallisation steps in purification and, finally, you Calcinate your precursors to get the 4N. ARC had more or less been perfected by mid-2020 and by March 2021 the company could show that it would work as readily on Speewah alumina as on standard, internationally-traded chemical feedstock. King River argues that its process, which uses different acids and reagents, and a different methodology, radically differentiates it from its HPA competitors.

The June 2021 Pre-Feasibility Study showed the value of this process, modelling a plant at Kwinana, south of Perth, making 9,000 tons per annum of 4N from third party alumina source material. The study estimated that 4N could be made at about A$8 a kg, versus a sales price triple that. A$203m in capital costs yielded a project with a post-tax NPV of A$692m at a 10% discount rate. The company is currently working on a pilot plant to demonstrate the process at a larger scale and to produce batch marketing samples.

Precursor to all sorts of interesting opportunities

Not only does King River not need Speewah ore anymore, it announced, only a few weeks after the PFS, that it had been able to make a 5N precursor product. That opened up an interesting thought process, revealed in an 8 September market release: Why not just make 4N or 5N precursor products rather than the actual HPA, and thereby cut that $200m-or-so capital budget to get started? Believe it or not, argues King River, bespoke precursor product – the powders prior to the calcination stage – often sell for a higher value than HPA, because they can make producing the finished product a whole lot easier.

Having the ability to make both 5N and 4N opens up a world of opportunities. Consider, for example, King River's collaboration with Source Certain International (SCI) on the use of 5N precursors to make precursor Cathode Active Materials (P-CAM) for lithium-ion battery (LiB) cathodes. The two companies have evaluated both nickel-cobalt-aluminum (NCA) and nickel-cobalt-manganese-aluminum chemistries for P-CAMs, both likely to be dominant in the lithium-ion battery electric vehicle market by 2030.

SCI has completed two experiments to produce NCA-type P-CAMS with promising results, although it seems SCI has not yet converted the precursors into cathode active materials to produce actual LiBs due to the complexity of the task, since that requires lithium, as well as LiB building and testing facilities. That said, SCI has outlined exactly what it needs to convert King River HPA precursors into NCA, then into LiBs. Test work is ongoing.

King River has come a long way with Speewah in just two years. It's not the only HPA player in town – we wrote about FYI Resources (ASX: FYI) on 15 April 2021 and Alpha HPA (ASX: A4N) on 11 January 2021. It has, however, been the most inventive, in our view, in terms of developing a process that can potentially unlock considerable value. And it's going after the big money in the premium part of the market. With King River yet to make a misstep since it got into HPA, we rate it four stars.

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