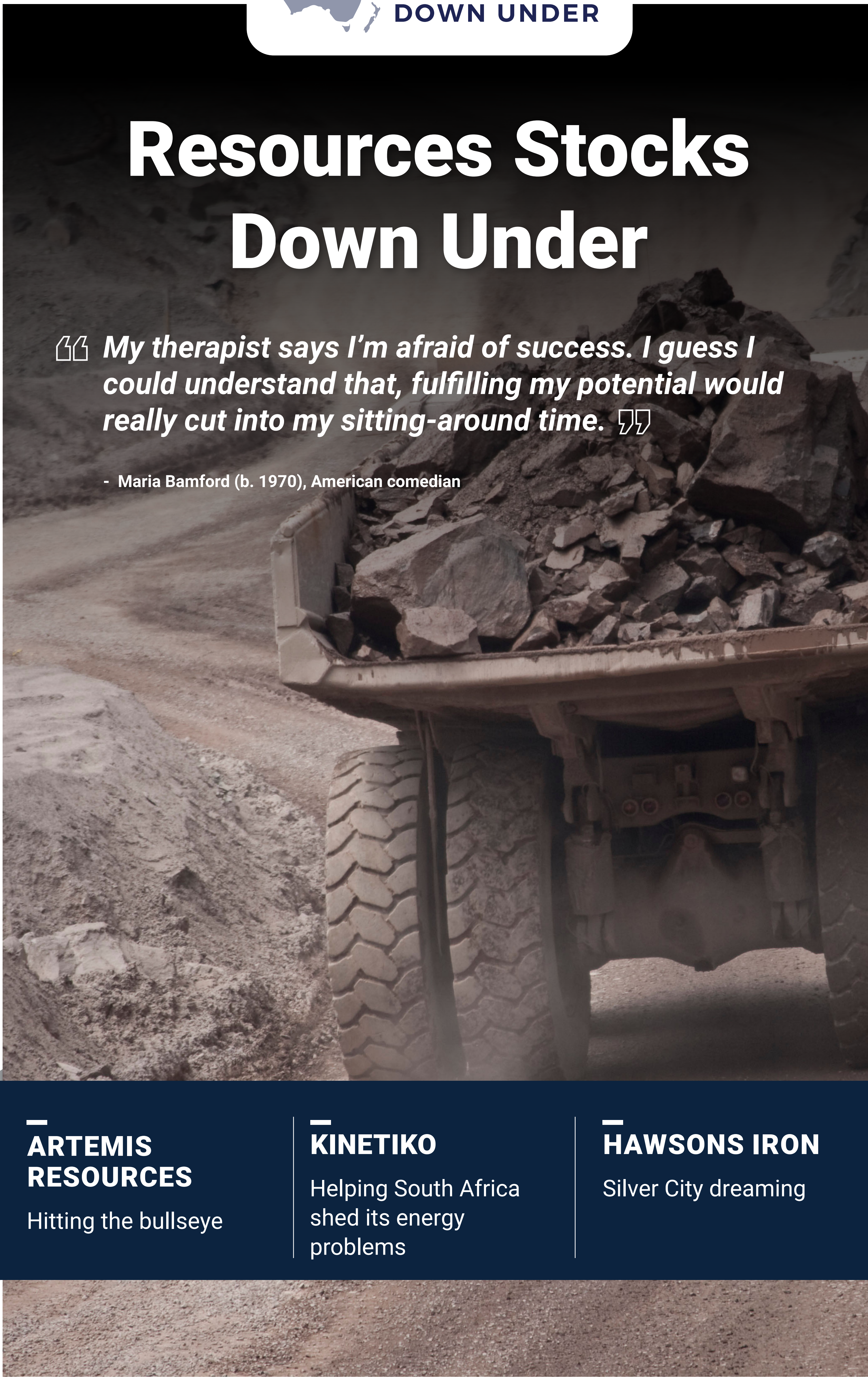
STOCKS DOWN UNDER

14 OCTOBER 2021



Resources Stocks Down Under

> *"My therapist says I'm afraid of success. I guess I could understand that, fulfilling my potential would really cut into my sitting-around time."*
>
> \- Maria Bamford (b. 1970), American comedian

ARTEMIS RESOURCES

Hitting the bullseye

KINETIKO

Helping South Africa shed its energy problems

HAWSONS IRON

Silver City dreaming

ARTEMIS RESOURCES

Hitting the bullseye

Stocks Down Under rating: ★★★★

ASX: ARV
Market cap: A$119M

52-week range: A$0.051 / A$0.175
Share price: A$0.095

Pilbara explorer Artemis Resources is taking the high road in its long-winded journey to gold and copper discovery with its two big exploration projects, but it has high hopes: recent drilling at its flagship Carlow Castle Gold and Copper Project shows promise, while another prospect at Paterson Central sits in the middle of big-time copper and gold discoveries. With greater funding secured, Artemis expects a newsworthy year.

READ MORE

KINETIKO

Helping South Africa shed its energy problems

Stocks Down Under rating: ★★★★

ASX: KKO
Market cap: A$58.6M

52-week range: A$0.075 / A$0.165
Share price: A$0.092

It's been a long time coming, but the Perth-based gas project developer Kinetiko reckons it's getting closer to a payday with its Amersfoort Project in South Africa. The project is large in scale and Kinetiko has a potential sellers' market on its hands thanks to the serious energy shortages South Africa has experienced in recent years. Offtake agreements now being talked about can take this project to the next level.

READ MORE

HAWSONS IRON

Silver City dreaming

Stocks Down Under rating: ★★★★

ASX: HIO
Market cap: A$55.6M

52-week range: A$0.029 / A$0.221
Share price: A$0.079

Hawsons Iron, the company formerly known as Carpentaria Resources, has undergone a transformation over the last year, shaking up its joint venture agreements and renaming itself after its flagship project. Having independently identified the Hawsons Iron Project as one of the world's leading undeveloped high-grade iron ore prospects (at 70% Fe), the company is finally moving forward a Bankable Feasibility Study after a very successful capital raise. Following the recent pullback in the share price on the back of weak iron ore prices, we believe the current consolidation in iron ore prices could potentially set the stock up for a renewed upward move.

READ MORE

ARTEMIS RESOURCES

Hitting the bullseye

Stocks Down Under rating: ★ ★ ★ ★

ASX: ARV
Market cap: A$119M

52-week range: A$0.051 / A$0.175
Share price: A$0.095

Pilbara explorer Artemis Resources is taking the high road in its long-winded journey to gold and copper discovery with its two big exploration projects, but it has high hopes: recent drilling at its flagship Carlow Castle Gold and Copper Project shows promise, while another prospect at Paterson Central sits in the middle of big-time copper and gold discoveries. With greater funding secured, Artemis expects a newsworthy year.

Share price chart

Source: Tradingview

Project One Million

Artemis has two major exploration prospects at Carlow Castle, 30 km east of Karratha in the western Pilbara, and Paterson Central, a 605 km2 tenement area just north of Newcrest Mining's Haverion Gold and Copper Project in the Paterson province of the eastern Pilbara. Drill work at Carlow Castle is progressing well, with several new high-grade intersections registered in early August - including 7 metres at 4.7 g/t Au and 1.58% Cu from 170 metres - during the last diamond campaign in the eastern zone. The program also helped to confirm the mineralisation orientation in the north-east crosscut zone, which will be the target of the next RC program.

Further south, Artemis plans to test six priority (and adventurously-named) exploration targets at Paterson Central – Juno, Apollo, Atlas, Voyager, Enterprise East and Enterprise West – through 7,500 metres of diamond drilling. As of August, the company has completed its mobilisation phase (with heritage clearances still being defined) with a plan to continue drilling for the reminder of the year following a successful $7m capital raise at $0.06 per share in June.

Pressure in the Pilbara

While expectations are high at both projects, Paterson Central arguably has that extra level of anticipation given the location is both relatively underexplored and the source of great popularity with the discovery of Newcrest's Haverion and Telfer Gold projects and Rio Tinto's Winu copper discovery. The six targets all sit 3 km away from the Haverion boundary and are interpreted to share the same geological and structural corridor, enhancing Artemis' confidence of a major gold/copper discovery as Newcrest continues to expand its search with great results. As assay results from a seventh target at Nimitz didn't reveal significant gold values, Apollo and Atlas are the priority because of anomalies located to the north/north-west of Haverion, while Juno and Voyager appear to be related to a magnetic feature which transects Rio Tinto's Budgietown project (Yes, Rio called it 'Budgietown') to the north-east/south-west.

On the flip side, drilling programs at Carlow Castle have finally produced some tangible updates, including the updated mineral resource in May of 14.3 million tonnes at 0.7 g/t Au, 0.4% Cu and 0.05% Co for 320,000 ounces gold, 53,000 tonnes copper and 7,000 ounces cobalt. With gold and copper first discovered here way back in 1874, the historic deposits of Carlow, Quod Est, Little Fortune and Goodluck occasionally get looked at with a fresh round of drilling, the most recent prior to Artemis being conducted by Legend Resources in 2015. This long history is why Artemis intends to look again at that May estimate by including those deposits in the next 11,000 metre RC program. They're calling it 'Project One Million'.

At the same time, Artemis is focussed on bringing Radio Hill – the only processing plant in the region – online to reduce capital and improve production. 35 km from Carlow, Radio Hill is still prospective for gold, copper, cobalt and PGM (platinum group metal) discoveries and electromagnetic surveys are ongoing.

Counting down to that magic One Million

As work in the Pilbara continues, time has proven to be perfect for one of Artemis' other projects, Munni Munni, now that PGM prices are on a tear. Located 15 km from Radio Hill, Munni Munni has a historical palladium, platinum, rhodium resource which provides a few more options for the company now that its entered into a joint venture (70% interest) with fellow WA gold explorer Platina Resources (ASX: PGM – yes, that's its ticker code so you're left in no doubt that it is going after Platinum Group Metals | see 30 September 2021 report). 2,400 metres of RC drilling was completed in May with the hope of creating a resource estimate sometime in the future.

From its low of $0.06 in May, Artemis' share price has ascended nicely on the back of those high-grade intersections at Carlow, but as with most major exploration projects, patience (and funding) seems to be of the essence. After a corporate restructure and the appointment of experienced geologists (with WA gold experience), this company has a lot of gold, copper and PGM opportunities. Now it just has to make a big discovery. We think, given what's going on at Project One Million, that big discovery is coming. Four stars from us.

KINETIKO

Helping South Africa shed its energy problems

Stocks Down Under rating: ★★★★

ASX: KKO
Market cap: A$58.6M

52-week range: A$0.075 / A$0.165
Share price: A$0.092

It's been a long time coming, but the Perth-based gas project developer Kinetiko reckons it's getting closer to a payday with its Amersfoort Project in South Africa. The project is large in scale and Kinetiko has a potential sellers' market on its hands thanks to the serious energy shortages South Africa has experienced in recent years. Offtake agreements now being talked about can take this project to the next level.

Share price chart

Source: Tradingview

Eskom's loss, Kinetiko's potential gain

Here's a prediction for you: One of these days South Africa will surprise the world and become an economic powerhouse, propelled to greatness by the measures it took in the early 2020s to overcome its chronic energy shortages. You see, every now and then since about 2005 the Beloved Country blacks out because the near-monopoly state power utility, Eskom, can't keep up with demand. The politically correct term they use over there is 'load shedding' but it's still a blackout.

Eskom's effort to build new capacity has been mired in corruption and cost overruns, so the government, chastened by its reduced majority after the May 2019 general elections, is now encouraging new energy sources. That liberalisation seems to be gaining pace, as evidenced most recently by new rules that allow South African businesses to self-generate 100MW of electricity. Throw in the strong need to move away from coal as the main source of energy – coal currently provides around three-quarters of the country's primary energy needs – and Kinetiko is in an increasingly good position with its Amersfoort Gas Project.

Large, well-located resource

To begin with, Amersfoort is in a good position geographically. It is a little town out in Mpumalanga province, named after the mid-sized provincial town with the same name in The Netherlands. Between there and Volksrust, down near the KwaZulu-Natal border, Kinetiko has staked out about 1,300 sq km covering coalfields highly prospective for coalbed methane. The location is great, not only because Amersfoort is only 230 km east of Johannesburg and 430 km north of Durban, but because all the infrastructure for a great project is in the neighbourhood. That 1,300 sq km is only the beginning, by the way. The whole project area Kinetiko is working on covers 7,000 sq km, which is about 2% of South Africa's entire land mass. And 4,600 sq km of this has been granted.

Next, Amersfoort is in a great position in terms of the sheer volume of gas. In July 2020 Kinetiko announced an upgrade to the contingent 2C gas resource. Before then it was talking an impressive 1.5 TCF of gas, TCF standing for Trillions of Cubic Feet. That increased to 4.9 TCF in July 2020, independently certified. Not bad when gas can sell for US$7-10 a GJ in South Africa and a mere thousand cubic feet of gas is equivalent to 1.05 GJ. There's likely more where that came from because only about 15% of Kinetiko's land package has been explored. Indeed, up until 2020 there had only been about 20 exploration core holes drilled and seven permeability pilot test wells, but those wells all spontaneously flowed gas to the wellhead. Since 2020 Kinetiko has flown a number of aeromagnetic surveys to better understand the geology of its coalbeds. And further drilling is planned.

Investment-ready

Then there's the position with regard to potential gas users. The petrochemical giant Sasol (JSE: SOL) needs a heck of a lot of gas, as do other major industrial users of gas in South Africa and, beyond that, those businesses now allowed to self-generate electricity might choose gas-fired generators over coal-fired ones. Or Eskom's plants – all within ten within 300 km of the project area – could switch from coal to gas. It's fair to say there is no shortage of potential customers for that 4.9 TCF.

Finally, Kinetiko is in a good position with regard to being 'investment-ready'. For a long time, Amersfoort was a joint venture with Badimo Gas, its Black Economic Empowerment partner. Badimo Gas is now vending its 51% of the project into Kinetiko. Since the project is now only in one place, it's more likely that South African and global institutions will invest to benefit from the coming liberalisation of South Africa's energy markets.

Funded for the next stage

We probably don't need to remind you that COP26 kicks off in Glasgow at the end of this month meaning that the kind of clean energy Kinetiko is touting is going to be on everyone's lips. So far that prospect hasn't helped Kinetiko stock, which has gradually trended down since the $0.165 high of late November 2020. The company recently raised $2.8m at $0.10 in a placement, with a $2m SPP to come, but we think the market is waiting for the first exploration drilling in six years to commence in the coming weeks.

We're talking three wells before Christmas. That drilling could add to adjacent existing pilot production well to create an initial production 'cluster'. Beyond that, the market is also waiting for the first big offtake agreements for Amersfoort gas. Those offtakes may be coming sooner rather than later, now that one of the wells, called KA-03PTR, is being used as a pilot to produce Compressed Natural Gas to allow for testing by potential offtake partners.

At least one Kinetiko director is confident of the Amersfoort project's future: Executive Chairman Adam Sierakowski was an on-market buyer of stock on 15 September at $0.094 per share. Like Adam, we think patient investors can regard Kinetiko as a four-star opportunity.

HAWSONS IRON

Silver City dreaming

Stocks Down Under rating: ★ ★ ★ ★

ASX: HIO
Market cap: A$55.6M

52-week range: A$0.029 / A$0.221
Share price: A$0.079

Hawsons Iron, the company formerly known as Carpentaria Resources, has undergone a transformation over the last year, shaking up its joint venture agreements and renaming itself after its flagship project. Having independently identified the Hawsons Iron Project as one of the world's leading undeveloped high-grade iron ore prospects (at 70% Fe), the company is finally moving forward a Bankable Feasibility Study after a very successful capital raise. Following the recent pullback in the share price on the back of weak iron ore prices, we believe the current consolidation in iron ore prices could potentially set the stock up for a renewed upward move.

Share price chart

Source: Tradingview

Supergrade iron

Hawsons Iron is quickly progressing its Broken Hill project to the point where the company is now fully funded to commence a Bankable Feasibility Study (BFS). Hawsons recently raised $35.6m at $0.15 a share to speed things along, with the expectation that the BFS will be concluded by years' end, even with the COVID-19 bubble in NSW slowing things down until recently. Following the decision to restructure the company's ownership level of the project, Hawsons has increased its stake to 94% after buying former joint venture partner Pure Metals' 26% share. The company will now jointly fund the project with new JV partner Starlight Investment Company, associated with the Chinese businessman Wu Jiping.

Located 60 km south-west of Broken Hill with ample road, rail, port and power infrastructure, this project's Prefeasibility Study (done back in 2017) estimated a 10 million tonne per annum operation with a post-tax Net Present Value of $867m (at a 10% discount) and an Internal Rate of Return of 17.8%. It also estimated a revenue of $881m and EBITDA of $401m based on an iron ore price of $63 per tonne, putting it at the lower end of the cost curve for iron ore suppliers.

Taking back control

For Hawsons, the capital raise was an opportunity to further demonstrate the project's place as one of the best undeveloped iron projects in Australia (if not the world). Such an impressive iron reserve also gives the company an opportunity to focus on providing greener, higher-quality iron products as the world's biggest steelmakers turn towards lower emissions – particularly China.

So far, Hawson's supergrade product has caught the interest of carbon-minded blue-chip internationals, with a lengthy queue forming from companies in Japan, China, Taiwan and the Middle East for a share. From Hawsons' viewpoint the $35.6m capital raise puts less pressure on the company to secure offtake deals at unfavourable prices or enter into other arrangements that would diminish the final payoff for the shareholders. But Hawsons isn't about to get complacent: with uncertainty about the longevity of China's 'post-Pandemic' boom, most juniors want to take advantage of iron ore's current high run.

All the same, the current iron ore price of 'only' US$126.40 per tonne is a major improvement on the project's original PFS base-case of $63, indicating that there is no time like the present for a start to development. Now that the company has cleared the 'impediment' to starting an operation by buying out Pure Metals' share, Hawsons has a clear and controllable path to production – and greater access to Chinese steel mills through the election of Linda Lau to the board, a key player in Australian-Chinese joint ventures. Outside of China, the company also envisions open territory in Europe as the EU signals zero emissions.

Right place at the right time?

With the majority of the last year's focus all on a strategic review of operations and management, there hasn't been a lot of talk about actual upcoming drill programs or exploration work as the BFS took precedence. However, on 5 October 2021 management announced it had received NSW approval to begin drilling on 12 October 2021. As resources for the project have been defined at over 300 million tonnes and the company predicts low-cost mining and processing thanks to the ore body's simple geology and low variability, there is a potential to extend mine life and expand output.

Now that the core project team and contractors are in place, Hawsons will continue with all necessary approvals including the environmental impact statement (EIS) and mine optimisation work to help build momentum.

With a healthier cash balance after its capital raising efforts, the company has the benefit of choosing its preferred offtake partners. Even with the near-term forecast for iron ore prices to potentially fall below US$100 per tonne by next year, the advantage for Hawsons Iron is quality over cost with the expectation that offtakers will seek out its high-grade, low impurity product.

However, the iron ore price seems to be consolidating and Hawsons' cost advantage may start to get noticed. So, we think this is a four-star opportunity at the current share price.

Pitt Street Research Pty Ltd

95 Pitt Street, Sydney, NSW 2000, Australia

Pitt Street Research Pty Ltd provides issuer-sponsored research for Small & Mid Cap companies and 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.

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.