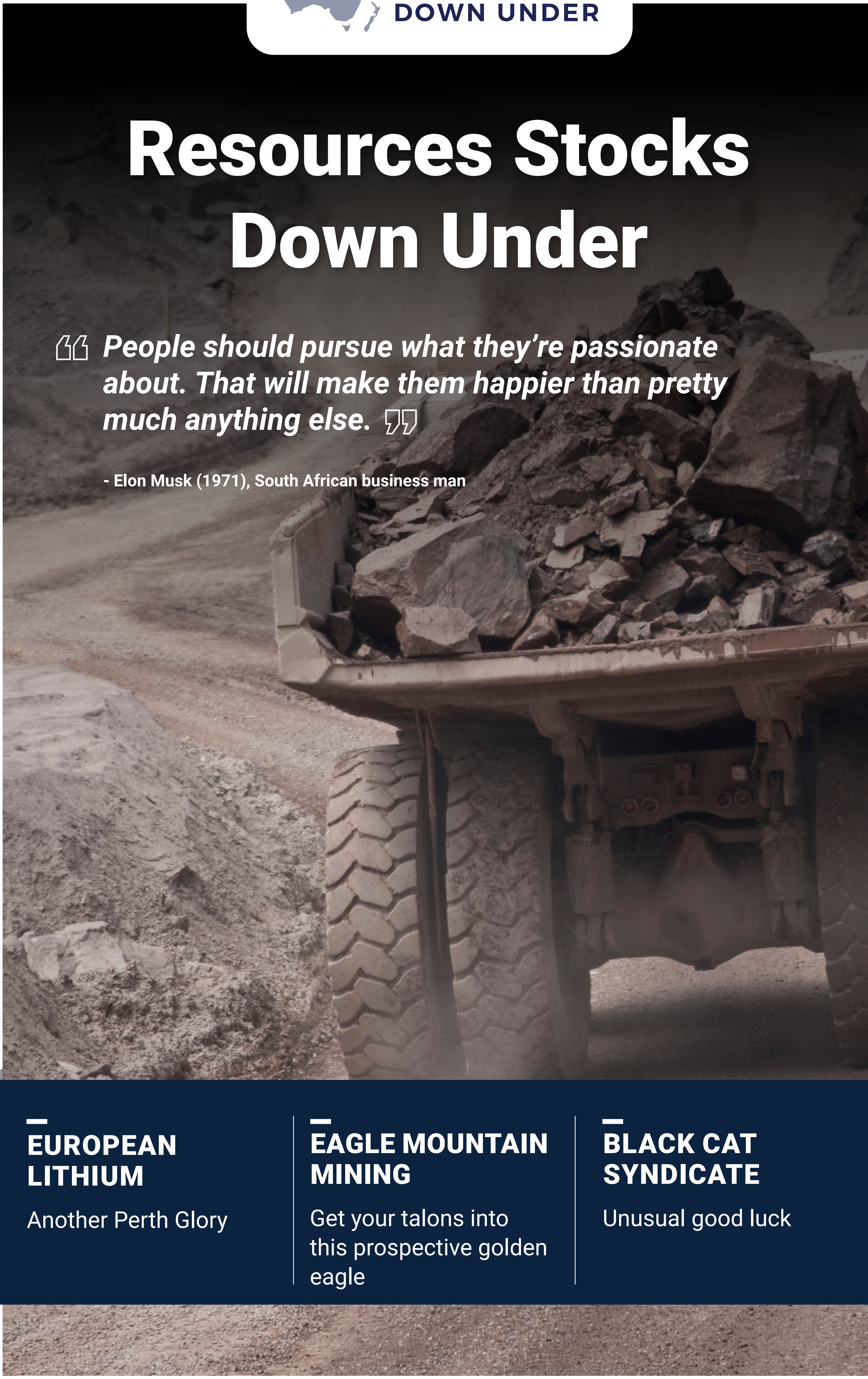
STOCKS DOWN UNDER

11 NOVEMBER 2021



Resources Stocks Down Under

“People should pursue what they’re passionate about. That will make them happier than pretty much anything else.”

- Elon Musk (1971), South African business man

EUROPEAN LITHIUM

Another Perth Glory

EAGLE MOUNTAIN MINING

Get your talons into this prospective golden eagle

BLACK CAT SYNDICATE

Unusual good luck

EUROPEAN LITHIUM

Another Perth Glory

Stocks Down Under rating: ★★★★

ASX: EUR
Market cap: A$181M

52-week range: A$0.041 / A$0.19
Share price: A$0.155

Here Stocks Down Under we can't get enough of lithium miners – within reason. Which is why we're keeping an eye on a small company backed by a big personality, the legendary Mr. Tony Sage. If anyone has a good track record of finding and capitalising great resource projects, it's Tony. European Lithium is one of his current plays and that would-be lithium producer is currently completing a Definitive Feasibility Study.

READ MORE

EAGLE MOUNTAIN MINING

Get your talons into this prospective golden eagle

Stocks Down Under rating: ★★★★

ASX: EM2
Market cap: A$157M

52-week range: A$0.305 / A$1.39
Share price: A$0.68

Yeah, we admit it, our call on Eagle Mountain Mining from 3 June 2021 isn't looking so hot today. Back in June, we called it four stars at $1.01 a share and the stock has given up some that in the meantime. Our excuse is that the price of copper peaked in May and the market decided to forget about the Oracle Ridge Copper Project in Arizona for a while. Copper has, however, staged a comeback recently and Oracle Ridge still looks like a quality project, particularly with multiple drill rigs active on site.

READ MORE

BLACK CAT SYNDICATE

Unusual good luck

Stocks Down Under rating: ★★★

ASX: BC8
Market cap: A$78.1M

52-week range: A$0.50 / A$0.85
Share price: A$0.545

The uniquely named Black Cat Syndicate has a name which speaks of superstition, good luck and the history of early syndicate funding for gold exploration. Black Cate Syndicate the company has been very lucky lately. It's now speeding ahead with its strategy to get its flagship Kalgoorlie East Gold Project up and running next year and has the approvals and resources for a joint open pit/underground operation. The company has steadily grown its landholding east of Kalgoorlie and is still finding new, high-grade gold mineralisation – evidence that there is still much gold to be found in the popular goldfields.

READ MORE

EUROPEAN LITHIUM

Another Perth Glory

Stocks Down Under rating: ★★★★

ASX: EUR
Market cap: A$181M

52-week range: A$0.041 / A$0.19
Share price: A$0.155

Here Stocks Down Under we can't get enough of lithium miners – within reason. Which is why we're keeping an eye on a small company backed by a big personality, the legendary Mr. Tony Sage. If anyone has a good track record of finding and capitalising great resource projects, it's Tony. European Lithium is one of his current plays and that would-be lithium producer is currently completing a Definitive Feasibility Study.

Share price chart

Source: Tradingview

If you follow football – the game many of you may misname as 'soccer' – you may have heard of Tony Sage before. The highest professional league in Australia is the 'A-League' and one of its key franchises is Perth Glory, the premiers in the 2018-19 season. Sage is the club's owner.

Dive deeper and you meet not just a football club owner, but an astute businessman. In 2008 Sage sold a magnetite project called Mt. Anketell to the Metallurgical Corporation of China for $400m after buying it 18 months earlier for just $20m. In 2009 he sold CopperCo assets for $300m after converting the company's debt to equity, while in 2012 it was African Iron's turn to sell for big bucks, netting $375m.

We argue that European Lithium, one of the current crop of Sage companies, may be headed for its day in the sun in the not-too-distant future.

What's Tony thinkin'?

In case you only just got here from 1990 and didn't realise it, the lithium market is beginning to boom in 2021, with Europe as the second-largest consumer worth a fifth of the entire market. European Lithium's Wolfsberg Project in Austria is therefore well-positioned to supply to some of the lithium-hungry companies that are beginning to sprout not far away. The Tesla Gigafactory Berlin is underway, with a proposed production commencement in 2023 and a planned capacity of 20 GWh. There are also big electric vehicle players in Germany, home to the Volkswagen/Northvolt partnership (construction in 2023, planned capacity 16-30 GWh) and the Farasis/Mercedes partnership (production in 2022, planned capacity 6-10 GWh).

For a while there's a chance European Lithium may have the field all to itself, as the first battery-grade lithium producer on the entire continent. You see, subject to funding, production is anticipated to commence in 2023, whereas Europe-based lithium competitor Vulcan (ASX: VUL) anticipates its first commercial delivery only in 2025.

A rich orebody

The Wolfsberg project is positioned well commercially, but what about geologically? Well, it's a bit off the beaten track, located near the town of Wolfsberg, population 25,000, in Austria's southernmost state of Carinthia. But this is Europe, so we're still only 270 km from that most liveable city of Vienna. An Austrian state-owned mining company explored the Wolfsberg deposit and set up the mine in the 1980s, but it never reached a production phase because of the relatively low demand for the metal at that time.

Multiple pegmatite veins have been explored in the Wolfsberg anticlines, and test work has been done using flotation and magnetic separation. The results found that spodumene concentrates with Li_2O grades greater than 6% could be produced, whilst recovering over 85% of the spodumene. Not bad, huh?

Wolfsberg also gives its owner access to a few sellable by-products, such as ceramic grade feldspar, glass grade quartz and mica concentrates. On 9 November 2021 the company announced it is increasing its estimated mineral resource by 54% to 9.7Mt at 1.03% Li_2O and we expect more milestones to come.

Strong economics

The Definitive Feasibility Study at Wolfsberg completes late this year, but in the meantime, we can look at the April 2018 Pre-Feasibility Study to have a first pass at the potential economics of the project. In this document European Lithium outlines two production streams; an 'Accelerated' case with a mine life of 10 years and an NPV8 of A$442m and a 'Base' case with a 12-year mine life and an NPV8 of A$263m.

The Base case projects an 8,400 tpa lithium hydroxide monohydrate, with by-products of 55.4 ktpa spodumene concentrate, 114 ktpa feldspar and 71ktpa quartz. In the Accelerated case, a 20% increase in processing rates is predicted, increasing lithium hydroxide monohydrate output to 10,129 tpa. The production cost for the Base case is US$7,160 per ton and the Accelerated case requires US$6,552 per ton (both figures after by-product credits). What this suggests is that a modest improvement in costs, production and selling prices does wonders for potential shareholder value.

A Scoping Study from SRK Consultants published one month before the release of the Prefeasibility Study forecasts a 13-year mine life with a production rate of 7,100 tpa of lithium carbonate with a production cost of US$5,000 per ton at an NPV of US$204m, which was A$272m. Okay, all the figures quoted above are early-stage estimates, but they're higher than what European Lithium is trading at right now. The catch is the US$389-424m in capital costs, but we believe the day when that kind of funding is available for European lithium projects is coming soon given the demand for the end product.

Sure, Wolfsberg isn't quite as cost-effective as innovative brine mining companies, such as VUL and Lake Resources (ASX: LKE), but what it does have is product that can break into the European market earlier and with much shorter, and better provenanced, supply chains than others with more distant orebodies or brines.

It's just up to Tony and his colleagues to get to the finish line before the others do, securing commercial delivery streams with the battery manufacturing companies in such close proximity and getting the project funded. Four stars.

EAGLE MOUNTAIN MINING

Get your talons into this prospective golden eagle

Stocks Down Under rating: ★★★★

ASX: EM2
Market cap: A$157M

52-week range: A$0.305 / A$1.39
Share price: A$0.68

Yeah, we admit it, our call on Eagle Mountain Mining from 3 June 2021 isn't looking so hot today. Back in June, we called it four stars at $1.01 a share and the stock has given up some that in the meantime. Our excuse is that the price of copper peaked in May and the market decided to forget about the Oracle Ridge Copper Project in Arizona for a while. Copper has, however, staged a comeback recently and Oracle Ridge still looks like a quality project, particularly with multiple drill rigs active on site.

Share price chart

Source: Tradingview

You've got to hand it to the team at Eagle Mountain Mining for their timing. In October 2019 this Perth-based company was able to buy 80% of the old Oracle Ridge Copper Mine in Arizona's Pima County for a mere $0.5m down and US$6.4m on delayed terms. Something like US$26m had been invested over the previous eight years at Oracle Ridge, aimed at bringing back an old underground mine on care and maintenance. However, with copper only about US$2.50 a pound in late 2019 the old mine didn't seem to be worth all that much. At the end of April 2021, it was s slightly different story. That was when Eagle Mountain bought the 20% of Oracle Ridge it didn't own for 10 million of its shares, worth $12.6m, which valued the whole mine at $63m. Copper was a much healthier US$4.48 a pound so the vendors could ask for more.

184,000 tonnes of copper and counting

By April 2021 we had a better idea how much copper Eagle Mountain had bought. Oracle Ridge came with a NI-43-101 resource estimate and when, in December 2020, that converted over to a JORC 2012 number the resource, at the indicated and inferred level, was 12.2 million tonnes at 1.51% copper and 16.3 g/t silver. That was at a high 1% Cu cut-off grade. That translated to 184,000 tonnes of contained copper and 6.4 million ounces of silver. The resource even came with 73,000 ounces of gold thanks to a 0.19 g/t grade for the yellow metal. Helpfully, there were some high-grade zones that would greatly assist a future restart.

Oracle Ridge has a long history dating back to 1873 as part of a vast copper province in south-central Arizona. The town of San Manuel is nearby and Tucson, Arizona's second largest city, is only an hour's drive south. If you can remember BHP's ill-fated US$2.4bn acquisition of Magma Copper in 1995 you'll know this neighbourhood. It's where America got a lot of its domestically-mined copper back in the day and the only reason Magma Copper didn't work out so well for BHP, basically forcing the merger with Billiton, was the price of the metal, which in the late 1990s was truly lousy. Like, when BHP shut down its smelter at San Manuel in 1999 copper was changing hands at only about US$0.60 a pound.

The region is still rich in copper and has the usual copper suspects, such as Grupo Mexico's ASARCO unit, America's Freeport McMoRan (NYSE: FCX) and Canada's Hudbay Minerals (TSX: HBM) all kicking around looking for the Next Big Thing. It's so attractive BHP is still there, despite the spanking it got in in the late 1990s. So, Eagle Mountain's leadership will be very surprised if its exploration efforts can't add considerably to the Oracle Ridge resource base.

The quest for the lost porphyry

The striking thing about Oracle Ridge is that the geologists have never managed to find the source of mineralisation even after close to 150 years. All the copper to date has come out of various skarns, that is, lime-bearing siliceous rock where limestones and dolomites were subjected to metamorphic alteration. Deeper down there could be untold copper riches in sulphides within a potential porphyry system that feeds into the skarns. We reckon over the years more than one geologist has asked for money to go explore for that porphyry and got told the budget couldn't stretch that far. Eagle Mountain is on record that it's up for that challenge and that in itself will be a company-maker beyond just bringing the original Oracle Ridge and its 18 km of underground workings back to life.

It's the exploration which Eagle Mountain has been doing this year in the regular skarns that can bring Eagle Mountain back to the levels the stock was at in June. Take, for a good example, the announcement of 25 February 2021 where a drill hole called WT-21-03 came back with a 12 metre intersection grading 3.47% copper from just 74 metres. Or another from 31 March reporting 12.7m at 3.96% copper from 363m in WT-21-06. These were results outside the existing JORC 2012 resource.

From about May the drill rigs have been running hard at Oracle Ridge – there's currently three that are active – so there's been a steady stream of good news. A lot of it in recent weeks has concerned two interesting prospects, one called Talon, the other called Golden Eagle. Eagle Mountain raised $16m at $0.65 in late September, so it's well placed to keep the action going. In May, the market got tired of hearing how good Oracle Ridge was.

However, we think that when the next resource upgrade happens it will sit up and take notice, particularly with copper having regained its mojo in October. Ahead of that upgrade, we're sticking with our call and Eagle Mountain Mining remains four stars.

BLACK CAT SYNDICATE

Unusual good luck

Stocks Down Under rating: ★★★

ASX: BC8
Market cap: A$78.1M

52-week range: A$0.50 / A$0.85
Share price: A$0.545

The uniquely named Black Cat Syndicate has a name which speaks of superstition, good luck and the history of early syndicate funding for gold exploration. Black Cate Syndicate the company has been very lucky lately. It's now speeding ahead with its strategy to get its flagship Kalgoorlie East Gold Project up and running next year and has the approvals and resources for a joint open pit/underground operation. The company has steadily grown its landholding east of Kalgoorlie and is still finding new, high-grade gold mineralisation – evidence that there is still much gold to be found in the popular goldfields.

Share price chart

Source: Tradingview

Transitioning to mining

BC8's company-maker is Kal East, the Kalgoorlie East Gold Project just 50 km east of the pubs on Hannan Street. A long time ago, before the Diggers headed off to Gallipoli, Kal East was a producer, with output from BC8's project area estimated to be around 152,000 ounces at the kind of grades those old guys could handle, namely, 30 g/t gold. Kal East today contains four high-grade centres at Myhree, Fingals Fortune, Majestic and Trojan, which give a combined mineral resource of 1.09 million ounces. Grades in 2021 are a different matter – BC8 has 15.3 million tonnes at a mere 2.2 g/t.

During the March 2021 quarter, BC8 acquired a 1.5 million tonne per annum milling circuit in an effort to quicken the project's path to production. The circuit is comprised of two mills, one of which the company plans to install as part of a planned processing facility centrally located near the Majestic deposit, with the second mill reserved for a probable capacity expansion. So far, the company has received approvals for the processing facility and the development of an underground mine at Majestic, in addition to the Myhree open pit. The facility is designed for 800,000 tonnes per annum.

Speeding toward production

The upgraded 15.3 million tonnes represents a 6% increase to the project's resource thanks to the company's aggressive infill and extension diamond drill programs during the June quarter. Most of these focussed on extensions and discoveries around the Majestic, Fingals and Trojan centres. The Majestic mining centre produced 1.4 million tonnes at 2.5 g/t Au for 113,000 ounces from multiple open pits from 2016-2018, but was never drilled deep enough to test for new discoveries. Recent drilling at the deposit has unearthed high grades in the under drilled northern part of the pit, while numerous hanging wall lodes have been discovered on the western side. There is still a number of new and mid-stage targets within Majestic including Jones Find. A similar underexplored story exists at both Fingals and Trojan, which have intermittently produced gold with little modern exploration.

While BC8 is set to uncover all four mining centres, speed is still everything as it intends to see first production in mid-2022 and that 'low capex, rapid start-up' strategy has been aided by the company's May capital raise of $20m at $0.67 a share. That funding has paid for an aggressive campaign and a new milling circuit (with 60% of the equipment needed to run the facility) for $1.24m.

With its mining approvals in place, BC8 has put away around $8.5m of the funds for continued exploration and resource upgrades to make good on Kal East's century-old proven history of gold production.

Black cat crosses your path

With a cash balance of $16m at the end of June, BC8 plans an extra 20,000 metre discovery drill program (of 85,000 metres all up) in the September quarter as it continues to target new extensions and build the resource. While Majestic is expected to provide initial feed for the proposed processing facility, Myhree appears to have further potential as an underground mine with high grade hits at depth of 4.6m at 11 g/t Au from 185m and many targets (including Boundary and Trump) open at depth. In a 28 September 2021 announcement, Black Cat announced it had hit 3.53m at 5.18 g/t Au from 396.7m, 1.38m at 6.9 g/t Au from 314.4m and 3.12m at 5.89 g/t Au from 331.9m.

While the company's name is all about superstition, luck and respect for those early gold explorers, it's fair to say that BC8's 'good luck' is down to constant greenfield exploration and clever planning. And there is more room for continued discoveries at many new satellite deposits to grow the project's mine life into the future. For now, further optimisation of pit resources and related feasibility studies are expected, as are further assay results for the remainder of CY21.

It all sounds great. So why are we calling it just three stars rather than four? Well, that recent capital raise, frankly, really took it out of the secondary market and this stock is pretty weak right now. We think there's a heck of a lot of gold to be developed into resource and reserve at Kal East, and we like the speed with which the company is moving.

However, the stock's going to have to base-build for a while, maybe around $0.50, before the aftereffects of the raise are no longer felt. Then here's hoping a black cat crosses your path.

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.