



Resources Stocks Down Under

🗨️ *Investors make the mistake of buying high and selling low when the exact opposite is the right strategy to outperform over the long term.* 🗨️

- John Paulson (b.1955), Investor and hedge fund manager

VOLT RESOURCES

Getting recharged

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Stocks Down Under rating: ★★☆☆

ASX: VRC
Market cap: A\$65.4M

52-week range: A\$0.012 / A\$0.045
Share price: A\$0.021

When we last looked at Volt Resources on 27 January 2022 the company had only recently taken possession of 70% of an established graphite producer in Europe. The timing, however, was lousy, because the location of the mine was in Ukraine. But Volt still has a very valuable asset in its Bunyu Graphite Project in Tanzania. Plus a few other interesting irons in the fire.

Share price chart



Source: Tradingview

For a while there it looked like the Deal of the Century. Early last year Volt Resources agreed to pay just US\$7.5m to acquire 70% of a long-time graphite mining and processing business in Ukraine, called Zavalievsky. The Zavalievsky graphite field in Ukraine's central Kirovohrad Oblast, a few hours' drive south of Kiev, had been worked since the mid-1930s.

By the time the field came into Volt's aegis the mine was idle and hadn't been making much money before then due to low graphite prices. But it did have a reserve of 22.9 million tonnes at 6.8% Total Graphitic Content (TGC) and the concentrate enjoyed a ready market with European makers of things like refractories, electrodes and lubricants. Zavalievsky was a potentially valuable fixer-upper because if the graphite could be spheronised, there was the potential to become a major and very profitable supplier to all the Gigafactories set to open up in Europe over the next decade or so. Zavalievsky was restarted not long after the transaction closed in May 2021.

Bunyu can pick up where Zavalievsky left off

Vladimir Putin has, at least temporarily, put paid to Volt's ambitions for Zavalievsky because the War in Ukraine has caused the operation to be shuttered again. Volt has, however, a number of other assets that are unaffected by the War that can be the building blocks of a much larger company. First among these is the Bunyu Graphite Project.

Tanzanian graphite projects are coming in to their own in 2022 due to a more investor-friendly government in Tanzania and rising demand for the product itself. Bunyu is located in the Mtwara Region of southeastern Tanzania, only 140 km from the port city of Mtwara. Volt's flagship project sits on top of a truly massive graphite resource, which the company discovered in late 2015 and now weighs in at 461 million tonnes grading 4.9% TGC. Volt got that resource by only exploring about 6% of its leases, so there's likely more where that came from.

A billion-dollar project

Once Bunyu gets up and running it can foreseeably become a billion-dollar project. In October 2016, Volt's Pre-Feasibility Study modelled a 22-year operation producing 170,000 tpa of graphite products where US\$173m in capital costs yielded a pre-tax NPV of US\$890m. The IRR was a very healthy 87% and the operation's payback period a mere 17 months.

Sure, the mid-2017 changes to Tanzania's mining laws made further development of Bunyu difficult over the next few years. However, Volt has persevered with Bunyu in part because it's figured out how to bootstrap the project with a fraction of the initial capital, simply by breaking the project into two Stages.

As per a July 2018 Feasibility Study, Stage 1 will create a small operation producing 23,700 tpa of graphite products. That stage will more or less only washes its face, with a pre-tax NPV of just US\$18.6m on a 10% discount rate, but it will only cost US\$31.8m to develop. With offtakes agreements already in place for Stage 1, it's not hard to see this project quickly springing to stage 2 in the next couple of years.

Getting on investors' Jadar screens

Zavalievsky was Volt's first effort to de-risk the company so that it could grow in the battery minerals space without having to wait for Tanzania to come in from the cold. Since Zavalievsky there have been others and we think this dynamism has potential to turn Volt into something a whole lot bigger.

Take, for example, Volt's recently acquired lithium projects. If you were watching the news back in January you will have noticed that, right around the time Australia was stopping a well-known Serbian tennis player from visiting, the government of Serbia was cancelling Rio Tinto's proposed Jadar Lithium-Borates mine. Not long before that event, Volt Resources had acquired its three projects and one of them, Jadar North, sits right next door to Rio's property. Since Rio intends to spend US\$2.4bn – that's billions of US dollars – developing Jadar, it's a fair bet that Rio is working very hard to deal with its issues in Serbia. When these are solved, Volt will be in the box seat.

Moving way up the value curve

And then there's the US Gigafactory. Volt announced on 10 February 2020 that it had been invited to be part of a proposed Gigafactory to be built somewhere in the American Midwest by a new company called Energy Supply Developers (ESD). This project is expected to break ground sometime later in 2022 and should be producing 50 gigawatt-hours' worth of lithium-ion batteries by 2025. Volt will be the battery anode materials supplier, Bunyu graphite having shown that it is amenable to spherulisation.

Let's assume that the Zavalievsky operation is a write-off, Jadar North never goes anywhere and that the ESD project can't find a location to get built. Volt is still well placed in Tanzania with Bunyu with a project that doesn't require much capital to get started. Everything else adds considerable upside. With Volt stock recovering after its Ukraine shock, we're going to stay four stars on this one.

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