



# Resources Stocks Down Under

🗨️ *Go for a business that any idiot can run - because sooner or later, any idiot probably is going to run it.* 🗨️

- Peter Lynch (b. 1944), American fund manager

**BLACKEARTH MINERALS**

It likes to move it, move it

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Stocks Down Under rating: ★★☆☆

ASX: BEM  
Market cap: A\$27.3M

52-week range: A\$0.091 / A\$0.18  
Share price: A\$0.095

BlackEarth Minerals continues to make progress with its Maniry Graphite Project in Madagascar. The company is currently completing a Definitive Feasibility Study for Maniry, but a late 2021 update of the Scoping Study has shown it to be worth at least US\$180m post-tax. Not bad in an environment where graphite stocks are coming back into favour.

## Share price chart



Source: Tradingview

Say the name 'Madagascar' to most Australians and they'll likely think of only three things: Lemurs, those magnificent baobab trees (*Adansonia grandidieri*) or that 2005 film with the penguins. However, this large and mineral-rich island nation off the south-eastern part of the African continent, capital Antananarivo, is becoming much more than lemurs and baobabs to mining sector investors.

It's got market-friendly and stable government under President Andry Rajoelina, who took office in 2019. And you can tell that it's mining friendly because Rio Tinto (ASX: RIO) has invested something like US\$1bn in QMM, a large ilmenite operation on the southeastern tip of Madagascar near the city of Fort Dauphin.

Meanwhile, Base Resources (ASX: BSE) is flying high thanks to Toliara, its mineral sands mining operation in Madagascar's southwest. And BlackEarth Minerals hopes it can follow suit with its potential company-maker, the Maniry Graphite Project.

## An undervalued project

If you want to get into the graphite business, Madagascar is a great place to find a good project. The country was producing the stuff back when it was a French colony a century ago and remains one of the largest exporters to this day. There's a lot of high grade, large flake deposits that are not hard to find because they're close to the surface. Moreover, because of tropical weathering, the graphite sits in soft clays, making it easy to dig up the flakes for processing. And now that the country is more investment friendly than in the past, the infrastructure to support your project is showing up. Consider, for example, that at Fort Dauphin, only 230 km

from Maniry, Rio Tinto built a new port for QMM, called Port d'Ehoala, big enough to accommodate vessels with 15m+ drafts.

Maniry is a town in the far south of Madagascar, in Atsimo-Andrefana Region, not too far from Toliara. BlackEarth Minerals did its IPO on the ASX in 2018 to develop Maniry and that remained the flagship project even when graphite was way out of favour.

For a while in 2019 you could buy the whole of BlackEarth and Maniry for just A\$3m or thereabouts, even when a Scoping Study at the time valued it at US\$78m after tax. Today, when graphite is coming back into favour, BlackEarth is not even capped at A\$40m. That's chickenfeed when right next door to BlackEarth is Canada's NextSource Materials (TSX: NEXT), whose Molo Graphite Project gets valued in Toronto at more than C\$300m.

Moreover, a December 2021 update to the Maniry Scoping Study now puts a post-tax value of US\$184m on the project. Keep in mind as well that that Scoping Study uses a 10% discount rate.

## **Big flakes, big payback**

Maniry is everything you want to see in a good graphite project. For one thing, it's underexplored – the current Resource of 23.1 million tonnes grading 7% Total Graphitic Content (TGC) only covers about 10-15% of the lease at three deposits, called Razafy, Razafy North West and Haja.

BlackEarth is ultimately targeting 260 to 380 million tonnes at 6-8% TGC from its exploration efforts. For another thing, the existing resource comes with a variety of flake sizes and half the graphite is coarse flake, meaning BlackEarth's margins can be strong thanks to the premiums associated with Jumbo and Super Jumbo flakes. BlackEarth estimates that its basket price can be north of US\$1,200 a tonne.

Then there's the cost, which are low in part because the strip ratio for the mine is only 0.9:1. BlackEarth estimates the EBITDA margins will be north of 50% for the life of the mine. Finally, there's the relatively low capex, where only about US\$38m is required for Stage 1 at Maniry. BlackEarth estimates the IRR for its flagship is now a very nice 86%, with a payback time of only 1.2 years. The company is currently firming up its project numbers with a Definitive Feasibility Study (DFS) expected to be completed later this year.

## **A DFS coming soon**

BlackEarth's team of partners for Maniry is coming together. Of particular importance is a joint venture with an Indian company called Metachem, which makes flame retardant materials. Under a late 2021 agreement the two companies will build a plant in India to process expandable graphite from Maniry. Before that, the first of Maniry's offtakers, RHI Magnesita (LSE: RHIM), signed on in August 2020 for the mid-sized flakes, while in June 2021 Austria's Grafitbergbau Kaisersberg indicated that it was a buyer for the expandables to be made with Metachem. Urbix, an American maker of battery anode materials, has started evaluating Maniry material for use in that rapidly growing market.

We expect 2022 will be a good year for BlackEarth. The Maniry resource will likely increase thanks to exploration work at Razafy and elsewhere. There's the all-important Maniry DFS that's coming. There'll be engineering work and a Final Investment Decision on the Metachem plant in India. And the company will be working to ensure that Maniry meets the guidelines of the Equator Principles, which the World Bank developed around 2003 to help project financiers manage environmental and social risk.

Combine all this activity with a favourable pricing environment for the commodity, and BlackEarth may be set for another near-term re-rating. Four stars.

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