



Resources Stocks Down Under

🗨️ *Think about the business, not just the stock price.* 🗨️

- Christopher Mayer (b. 1972), equity analyst, journalist & former banker

MINERALS 260

Liontown's spinoff

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Stocks Down Under rating: ★★★★★

ASX: MI6
Market cap: A\$58.3M

52-week range: A\$0.22 / A\$0.84
Share price: A\$0.26

When a resources company discovers that one of its projects is the next big thing, it is common to spin out its other assets into a separate company. This allows the original company to focus its attention on its company-maker while also ensuring the other projects have the resources and capital they wouldn't have had they stayed in house. This is just what Timothy Goyder-backed Liontown (ASX: LTR) did after hitting the jackpot with its Kathleen Valley lithium project and Minerals 260 (ASX: MI6) was born last year.

Share price chart



Source: Tradingview

Could Moora be a company maker?

Minerals 260 (hereafter MI6) houses Liontown's gold, nickel and copper Moora and Koojan joint venture projects, as well as the Dingo Rocks Project and Yalwest tenement applications. It derives its name from the combined atomic weights of the five metals it is prospecting for – the three aforementioned along with palladium and platinum. All of MI6's projects lie in Western Australia with the Moora/Koojan projects 90km north of Chalice's Julimar discovery and 150km from Perth. MI6 demerged in October last year, raising \$30m in a real priced at 50c per share.

Moora/Koojan is the company's key focus right now. At Koojan it is in a joint venture with Lachlan Star (ASX: LSA) and has the right to earn up to 51% equity. MI6 has identified three prospective trends on its land position. First, a northern extension of the Julimar trend. It has identified multiple geochemical and geophysical anomalies and has assays pending for its maiden air core drilling program. Second, the Mt Yule Corridor, where most of its work has been done to date and that has seen the most positive results – also has assays waiting to come back from the lab to identify further prospects for further drilling. There are three specific targets at Mt Yule – Mynt, Zest and Angepena, all of which remain open. The third is the Bindi Bindi Nickel Trend, on which it has done little work to date, but which is in an area that has seen solid nickel results in the past.

A lot to look forward to, but will shareholders like it?

Shareholders can expect plenty of assay data and further exploration in the months ahead, particularly at Moora/Koojan. And eventually it will get to its other projects. Dingo Rocks looks a bit more positive after recent drill results from immediate neighbour Meeka Gold (ASX: MEK), which has reported results of up to 23m @ 5g/t gold. MI6 has a \$25.5m cash position, so there'll be no need to rush back to investors anytime soon. In fact, the company says it has enough for a more significant drilling program starting later this year.

So far, MI6 investors have not been overly excited – as judged by the lagging share price since the company's listing. But there was a brief rally after an 11 July announcement following a new gold intercept at Moora, specifically at the Zest prospect. It was 13m @ 3.3g/t gold and 0.2% copper from 127m-140m. This included 1m at 16.9g/t and 0.4% copper from 137m-138m and another 1m at 16.7g/t gold and 1.6% of copper from 130-131m. Assays are pending for another nine holes drilled at Zest. Clearly MI6 hasn't got enough results to prove it has a company maker and not enough to keep shareholders excited – yet.

Spin-offs have a poor record, but we think this can be an exception

One legitimate reason you might doubt MI6's potential is the track record of spun off resources companies in recent times. Most notably, Chalice's spin off Falcon Metals (ASX: FMT) crashed on debut last year and has never recovered. Other examples include Encounter Metals' spin off Hamelin Gold (ASX: HMG) and Firefinch spin off Leo Lithium (ASX: LLL). One might argue that companies just don't see value in spin off projects anymore, at least compared to projects remaining in the original company. However, there have been some positive performers - most notably South 32 (ASX: S32) and we think Minerals 360 can rise.

You have to remember that unlike other spin offs, many of Liantown's backers joined MI6's board – including stalwarts Tim Goyder and David Richards. The other board members are Craig Williams and Anthony Cipriano (also from Liantown) and Emma Scotney. Collectively, the directors own ~17%. We think Tim Goyder backing the company is enough to inspire confidence when you consider his track record.

We note four further points that might explain why MI6 has not performed. The first is that certain prospects, particularly Zest, are in cropping areas, arguably sparking concerns that it won't progress exploration or ultimate development to the extent it would had it been outside these areas. Even Chalice investors have endured fears with Julimar lying in a State Forest and efforts by protestors to stop Chalice getting a drilling licensor. But MI6 is in a different situation and maintains a positive relationship with farmers. Second, MI6's news flow hasn't been as smooth as other explorers. Third, the vast majority of companies that have pegged ground anywhere near Julimar, with explicit hope for a company maker of their own have been unsuccessful for the most part. And fourth, as we have noted before, gold explorers have lagged their battery metal peers due to the stagnating gold price.

For MI6, it will be crunch time from Q4 of 2022. It has completed significant drilling at all its three projects and is awaiting the results. It has reported the intersection of copper and/or gold at prospects with mineralised trends open (meaning they don't know where the mineralisation ends just yet). And it is well-capitalised to continue its current exploration campaign. Furthermore, the company has hinted (at the recent Resources Rising Stars event) that it might undertake further acquisitions, noting it has scope to do so. You can tell given the board's track record - they won't be picking up a project unless it is worth something. But just looking at management, the Moora/Koojan results to date and prospects alone, we think this one is four stars.

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