STOCKS DOWN UNDER

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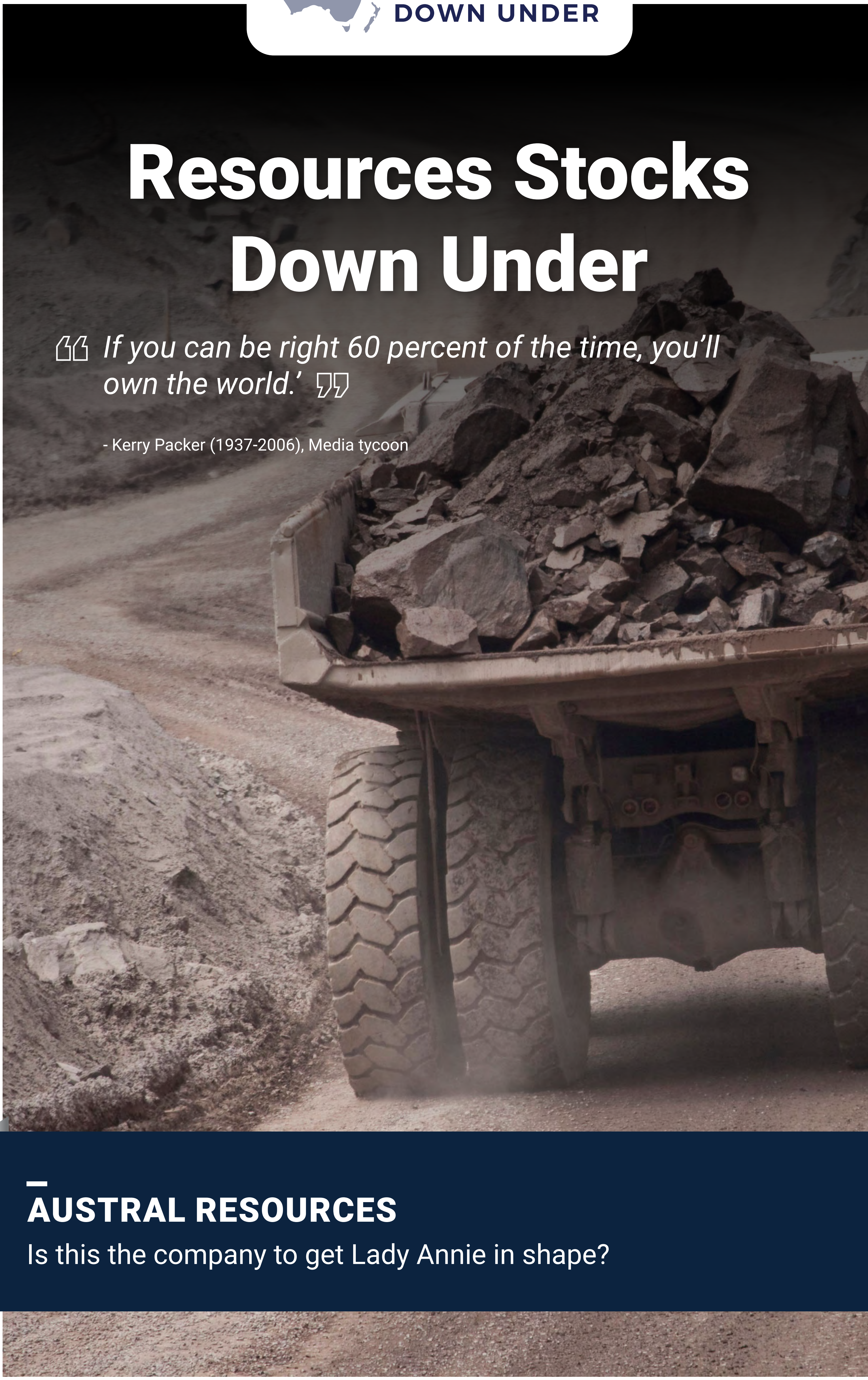
Resources Stocks Down Under

“If you can be right 60 percent of the time, you’ll own the world.’”

- Kerry Packer (1937-2006), Media tycoon



AUSTRAL RESOURCES

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Stocks Down Under rating: ★★

ASX: AR1
Market cap: A$47.4M

52-week range: A$0.15 / A$0.65
Share price: A$0.16

The Lady Annie copper project in Queensland's Mt Isa copper mining district has had several owners over the years, including Nathan Tinkler, but is now in the hands of Austral Resources (ASX: AR1). Austral has a deal for four years offtake at Anthill and an exploration partnership for surrounding tenements. But Austral has not been without its challenges and faces a number of issues to resolve.

Share price chart

Source: Tradingview

A fascinating trinity of assets

Austral owns three assets. First, the Mt Kelly copper processing facility that can produce LME Grade A copper cathode (99.99% copper metal). Mt Kelly has been in continuous production since its construction in 2007 and has produced over 125,000 tonnes ever since. Second, the Anthill deposit (an undeveloped open-cut mine with a JORC Ore Reserve of 5.06Mt @ 0.94% copper or 47.5kt of contained copper, that lies 45km from Mt Kelly. And third, nearby tenements that equate to 1,340km2 and have a JORC compliant Mineral Resource Estimate of 60Mt @ 0.70% copper or 423kt of contained copper. The Anthill deposit and other tenements combined are called the Lady Annie project.

Austral listed in early November 2021 at 20c a share. Executive director Dan Jauncey picked up a 49% stake in the Anthill project at behest of Nathan Tinkler after he bought it off Hong Kong listed CST Group in 2019. Tinkler eventually traded the remaining stake to Jauncey as copper prices tumbled. Prior to listing, Austal has consolidated its tenure, undertaken a remnant mining campaign producing 6,300 tonnes of cathode copper, produced a maiden Ore Reserve (with third party optimisation) and made the decision to develop the Anthill project.

Capitalising at the perfect time

Helping the company's cause was the recovery in copper prices and the anticipation of a green energy boom that would result in exponential demand for copper. But even without green energy, there are other trends that will help copper's cause, including urbanisation, growth in consumption, population growth and economic growth.

Copper is far from the only metal for these ends, but it is one of the most useful and versatile ones due to its high electrical and thermal conductivities, resistance to corrosion and malleable nature. One tonne of copper brings functionality in 40 cars, powers 60,000 mobile phones, enables operations in 400 computers or can distribute electricity to 30 homes. Austral's prospectus anticipates that consumption for copper will be ~27Mt by 2023, which would represent 8.4% growth in three years.

Great news for shareholders

After listing at 20c, Austral shares peaked at over 60c twice back in June. We think part of this can be attributed to the price of copper. When commodity prices jump, explorers' share prices can jump even without the companies themselves doing anything. But Austral has been busy. It secured a $21m prepayment facility and offtake deal with Glencore, covering 40kt of copper, enough to cover total production for the first four years of the project.

The good news flow has continued in recent months with an earn-in agreement with Glencore to explore its other tenements (initially a non-binding deal in June, but becoming binding just a fortnight ago), good drilling results at its other tenements and scoping studies for those tenements (particularly Lady Colleen).

Lady Colleen will be very important because although Anthill lies 44km from Mt Kelly, Lady Colleen is just 2km away, meaning there'll be no need for a road train haul. But the best news of all is the knowledge that as of late August, Austral was on track to produce 10kt of copper in FY23.

It has dipped for a good reason

Why, then, have shares retreated? Well, the very reason the company had to clarify it was still on track was because of operational delays in production (due to adverse weather), resulting in copper production that was below initial forecasts. Austral is far from the only company to face these issues, let alone the most significantly affected. It also had to go back to investors less than a year after listing, raising $17m at $0.37 a share.

The biggest risk with this company is that the operational impacts continue to linger. The longer the issues persist, the more difficult it will be for the company to recover. We think there are two further risks. The first is that China's COVID-zero policy continues to hit copper demand (and therefore prices), given that it consumes half the world's copper. The second is the risk that Nathan Tinkler follows through on his threats to sue the company for 'shareholder oppression', claiming he was forced to sell through the threat of insolvency and Dan Jauncey's alleged failure to bring equity into the operation. He wants his 50% stake back, which would be significantly dilutive for shareholders. So far, nothing has come from the threats, but Tinkler isn't one to shy away from a legal dispute, in January suing a former employee for using confidential information to help Indonesian billionaire Antoni Salim buy the Mt Pleasant coal mine in NSW.

We think the biggest priority for the company is to extend the mine life from 4 years. Achieving this will be the key catalyst for growth as it could unlock further economic value and offtake deals. This is likely given the exploration success at other tenements, but we can only speculate until this is converted into an actual JORC Resource. As it stands, 4 years is hardly appealing, even with the offtake locked in with a name such as Glencore.

Austral represents better value than just a few months ago and has plenty of things going for it. Compared to 12 months ago it is even more cashed up, has a binding offtake agreement for four years of production and has Glencore as an exploration partner. But we aren't sure the worst of the operational challenges are behind it and that it can extend the mine life. With no shortage of explorers on the ASX without these issues, or at least with a longer mine life to begin with, we think Austral is two stars.

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