



Resources Stocks Down Under

🗨️ *Behind every great man there is a woman rolling her eyes.* 🗨️

- Jim Carrey (b. 1962), Comedian and film producer

ALARA RESOURCES

First copper coming soon

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Stocks Down Under rating: ★★★★★

ASX: AUQ
Market cap: A\$31.7M

52-week range: A\$0.016 / A\$0.12
Share price: A\$0.039

You wouldn't know from the current share price that Alara Resources is about to bring its first mine into production. 3.9 cents per share on 26 October 2022 values Alara at a mere A\$25.6m. That's tiny given that Alara's company maker, the Washihi-Mazzaza Copper-Gold Mine in Oman, is expected to commission before FY23 is out. And tiny considering there's potential upside from other mining projects the company can pursue in the Middle East.

Share price chart



Source: Tradingview

If you didn't know about Oman...

The Sultanate of Oman, population circa 4.5 million, capital Muscat, is not a country many Australians know about, because it rarely makes the evening news. You'll find it on the map around 21 degrees North and 57 degrees East, on the southeastern coast of the Arabian Peninsula at the mouth of the Persian Gulf.

Oman being in Arabia, it won't surprise you to learn that the Sultanate is an oil producer, good for about 957,000 barrels a day in 2021. However, Oman also has other natural resources, including copper. Alara Resources expects to bring Oman's latest copper mine, called Washihi-Mazzaza, into production before FY23 is out.

Alara's adventures in the Other Rockies

Oman has a lot of copper because of the Jibal al-Hajar, literally, the 'Rocky Mountains', a huge mountain range that separates Oman's low coastal plain from the high desert plateau. The Hajar plays host to an ophiolite – a piece of oceanic crust embedded within a continent – called Semail. At the top of the Semail Ophiolite there's up to two kilometres of basaltic-andesitic lavas that host copper-dominant, Cyprus-type, volcanogenic massive sulphides. You know these deposits are rich when you hear the words 'Cyprus-type', since the very word copper is derived from Kupros, the Greek name for the island of Cyprus. In the Hajar the locals have

been working their Cyprus-type deposits for thousands of years. More recently, the Omani government has desperately wanted to encourage more copper production to reduce its reliance on oil-related receipts, and Alara Resources is in on the action with 51% of Washihi-Mazzaza.

Alara's company maker is small, with a JORC 2012 ore reserve of only 9.7 million tonnes at 0.88% copper and 0.22 g/t gold, but it's a pleasing first mine for Alara, which also holds another copper-gold project to the south called Daris. And Washihi-Mazzaza can, we believe, open other doors in the Sultanate as well as elsewhere in the Middle East.

A mine a decade in the making, but worth the wait

Oman is made up of ten regional areas called muhafaza, or 'governorates' in English, and you'll find Washihi-Mazzaza in Batinah North governorate, about 160 km to the west of Muscat. You might think Oman is all desert but this part of the Arabian Peninsula is all green and you can get to it from the capital by sealed road. Washihi-Mazzaza was discovered by Alara in 2013, which had started exploring in Oman in 2010 and acquired the Washihi Project in late 2011. By March 2016 there was a Bankable Feasibility Study and in 2018, the Al Hadeetha Resources LLC partnership, with Alara as the majority shareholder, became the first international joint venture company to be awarded a copper mining licence in the Sultanate.

Al Hadeetha Resources partners raised the project finance in early 2019 and started construction in August 2021. That work is almost complete. In a place like Oman you can't really do business without local partners, and for Al Hadeetha the minority shareholders, next to Alara's 51%, are an Omani member of the Royal Family called Sayyid Khalid bin Hamad Al Busaidi, who has 30%, while the Khimji family's construction company, Al Tasnim, which came in to the partnership in 2019, has the other 19%.

As mines go Washihi-Mazzaza isn't all that complicated, with an open pit drill and blast operation feeding into a 1Mtpa processing plant and producing concentrate that can be transported to a nearby smelter. The project isn't the largest copper mine we've seen, if the 2016 BFS is any guide. Average annual output is only 35,000 wet metric tonnes of concentrate over ten years for total copper metal production of just over 79,000 tonnes.

Simplicity, however, often means low capital and operating cost. An April 2021 update showed the high leverage to copper prices. At US\$7,500 a tonne for copper, for example, the project NPV was US\$71m and the IRR a very nice 29%. At US\$8,000 it was US\$88m and 33% respectively. As at 13 September copper was US\$7,850 on LME.

One door closes...

In our view there are two reasons why Alara Resources's share price isn't capitalising the Washihi-Mazzaza upside. First, because ASX resources investors don't really understand Oman - and arguably the entire Middle East - as a jurisdiction for resources projects. Second, is because Alara missed out on a potential new mine in Saudi Arabia - let's deal with the latter first.

The Kingdom recently put up for auction a large exploration licence called Khnaiguiyah about 175 km west of Riyadh which contains an estimated 25 million tonnes of zinc and copper at grades of 4.1% zinc and 0.6% copper. This was Alara's old project. Indeed, in 2013 it had published a Definitive Feasibility Study established a Khnaiguiyah project NPV of A\$170m at an IRR of 23% over a 13-year mine life. What prevented this mine going forward back then was the former mining licence holder reneging on a commitment to transfer the licence, leading to its cancellation. When the block was offered this year Alara entered the bidding against various consortia including one from Robert Friedland's Ivanhoe Mines. Alas for Alara, its bid made it to the final round but came in second earlier this month. The upside, however, is that Alara now has a good idea what else is available to bid on in Saudi Arabia, so we wouldn't be surprised to hear of other mining opportunities coming its way. One door closes, another opens.

Turning to the issue of Oman as a jurisdiction for resources explorers, it ranks 108th on the Index of Economic Freedom, well behind Australia, but ahead of other jurisdictions that are more common for ASX explorers, including South Africa, PNG, Mozambique, the Congos and Argentina. As we noted above, Alara is derisked because it has the most important thing for doing business in Oman - local partners.

We think once the first concentrates start to flow from Washihi-Mazzaza, Alara Resources has a good shot at re-rating, particularly if copper returns to the kind of form the Electric Vehicle revolution has suggested it should have. For investors comfortable with the wait, this one is four stars.

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