STOCKS DOWN UNDER

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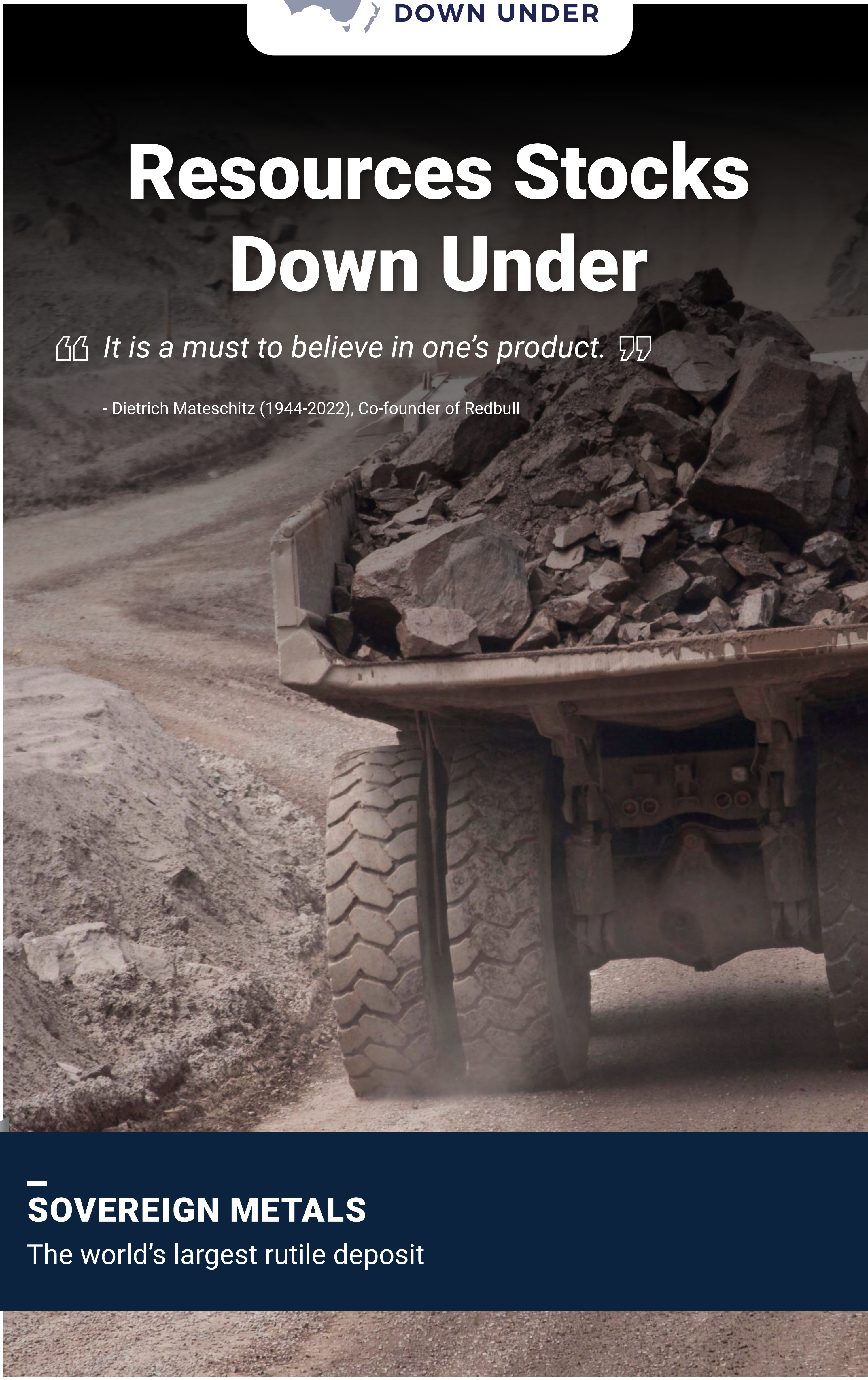

Resources Stocks Down Under

“It is a must to believe in one’s product.”

- Dietrich Mateschitz (1944-2022), Co-founder of Redbull

SOVEREIGN METALS

The world’s largest rutile deposit

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Stocks Down Under rating: ★★★★

ASX: SVM
Market cap: A$197.7

52-week range: A$0.34 / A$0.84
Share price: A$0.42

Back in August, we introduced our readers to rutile – a mineral sand used as a titanium dioxide feedstock for industrial purposes. We also introduced our readers to Sierra Rutile (ASX:SDX), which was spun out of Iluka. While we weren't fans of Sierra Rutile, we are fans of another ASX stock in rutile – Sovereign Metals (ASX:SVM). Sovereign is not just a small cap explorer, it is the holder of the world's largest rutile deposit with a significant graphite resource too.

Share price chart

Source: Tradingview

Kasiya stacks up

Sovereign Metals' Kasiya deposit lies in Malawi and has a Mineral Resource Estimate of 1.8Bt at 1.01% rutile and 1.32% graphite. These figures equate to over 18Mt of rutile and 23Mt of graphite. For comparison's sake, the next largest project in the world (belonging to Sierra Rutile) only has 8.1Mt.

From a graphite perspective, it is no match for Syrah's Balama deposit which is 146.3Mt. But it is ahead of other ASX companies including Black Rock's Mahenge deposit (at just 16.6Mt), Magnis' Nachu deposit (at 9.3Mt) and Volt's Bunyu deposit (at 22.6Mt). But what is arguably more important is that Kasiya has the lowest cost flake graphite project in the world. The average life of mine operating cost for graphite is US$320/t but Kasiya is just US$140/t. This lower cost is an advantage of producing graphite as a co-product with rutile.

As it stands, Kasiya has a post-tax NPV of US$1,537m, a 36% IRR, US$12,038m life of mine revenue (over 25 years) and US$323m average annual production. The project will enter production over two Stages, the latter of which is anticipated to take five years from first production. Once Kasiya has reached Stage 2, which is anticipated to be five years from the commencement of production, it will produce 265kt of rutile and 170kt of graphite annually. Also benefiting Kasiya is the simple geology with shallow depths and the highest grade rutile at the surface.

A solid ESG angle

The resources exploration sector does not have a good ESG reputation. Battery metals companies will all argue that their materials go into ESG-friendly products such as electric vehicles. But Sovereign Metals has solid ESG credentials just for the space it is in. Although rutile is not the only way titanium can be produced, it is the most environmentally friendly.

This is because mined natural rutile can be directly produced into pigment whereas other forms (such as titania slag and synthetic rutile) require upgrading processes prior to production that are highly emissions intensive. When in full production, Kasiya will emit 35-53% less than titania slag and synthetic rutile per tonne of titanium dioxide pigment produced. We also note that Kasiya is a low carbon sustainable operation that will be 100% powered by renewables with progressive land rehabilitation.

Rutile prices are good, but how can you tell?

We would be remiss not to mention an elephant in the room that we bought up when we covered Seirra Rutile in August. Namely, that Rutile has less transparent pricing compared to other commodities that trade daily on metals exchanges. This is indeed a downside to the company that you won't find applicable to many other exploration companies. But we think there are a few reasons that can spare Sovereign Metals from being rated the same as Sierra Rutile.

First, rutile prices are at US$2,100 per tonne right now - higher than earlier studies by the company (US$1,300). Second, rutile is expected to be in hot demand going forward as the world decarbonizes and because the project is not just the world's largest but the only one discovered in 50 years.

Demand for rutile is also an argument against any fears that it won't be able to obtain financing. Sovereign will need US$372m upfront as production commences. It will need a further US$311m before it proceeds to Stage 2), but the company anticipates this will be funded by free cash flow. The world's need for Kasiya specifically will also be helped as Base Resources' Bumamani deposit closes (anticipated for December 2024).

When will the dream become reality?

This all may sound good but just when will we see Kasiya in production? The company anticipates this to occur in CY26. The next major step for the company is the Preliminary Feasibility Study (PFS) which is estimated for May next year. The Definitive Feasibility Study (DFS) will follow another 12 months after that.

The company's largest shareholder is Sprott Asset Management which owns 11.7% of Sovereign. Clearly, a sign of confidence in the company. We acknowledge that some other investors would take a higher level of confidence if Sovereign had binding offtake agreements rather than Memorandums of Understanding (MoUs). But, once financing is secured, these existing deals can become binding and Sovereign Metals will be able to find further customers. Risk averse investors may also lack confidence in Malawi as an investment destination. But the country's relationship with Sovereign Metals is so strong, that the government came out to Australia to visit management rather than the other way around. The President of Malawi also made a special mention of Kasiya in an address to the UN General Assembly barely a month ago. And we can't blame lawmakers given the US$2.7bn in taxes and royalties that will be paid over the life of the project.

Given how many unique traits of this company that are held by few other peers on the ASX, it is four stars from us.

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